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FINNING INTERNATIONAL INC.

2006

MANAGEMENT PROXY CIRCULAR

NOTICE OF 2006 ANNUAL MEETING



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March 24, 2006

## TO OUR SHAREHOLDERS

On behalf of Finning International Inc.'s Board of Directors and employees, we are pleased to invite you to attend the Finning Annual Meeting of shareholders on Wednesday May 10, 2006, to be held in the Crystal Pavilion of the Pan Pacific Hotel in Vancouver, British Columbia at 11:00 am local time.

2005 proved to be another successful year for Finning with record revenues and earnings and strong improvement in cash flow. Given the strong performance by the Corporation and the solid outlook for the future, we increased the quarterly dividend by 18% to \$0.13 per share in February 2006.

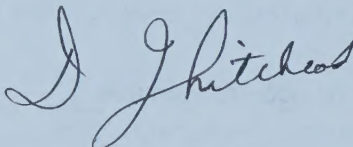
The business to be considered at this meeting is described in the accompanying Notice of Annual Meeting and Management Proxy Circular.

We encourage you to participate in the annual meeting process by voting your shares and if possible, by attending the Annual Meeting. Whether you choose to vote by proxy or in person, we appreciate your participation in this important event.

Sincerely,



Conrad A. Pinette  
Chairman of the Board



Douglas W.G. Whitehead  
President and Chief Executive Officer

## NOTICE OF ANNUAL MEETING

An annual meeting of the shareholders of FINNING INTERNATIONAL INC. (the "Corporation") will be held in the Crystal Pavilion of the Pan Pacific Hotel, 300-999 Canada Place, Vancouver, British Columbia at 11:00 a.m. Pacific Time on May 10, 2006 for the following purposes:

1. to appoint auditors and to empower the directors to determine the auditors' remuneration;
2. to elect directors;
3. to consider and, if thought fit, to pass an ordinary resolution ratifying, confirming and approving the Corporation's Amended and Restated By-Law No. 1. The full text of the amended and restated By-Law No.1 is set out in Schedule A to the management proxy circular accompanying this notice; and
4. to transact such other business as may properly come before the meeting.

These security holder materials are being sent to both registered and non-registered owners of securities.

If you are a *registered shareholder* of the Corporation and are unable to attend the meeting in person, please date and execute the accompanying form of proxy and deposit it with Computershare Investor Services Inc., Attention: Proxy Department, 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1 not less than 48 hours, excluding Saturdays and holidays, prior to the meeting or any adjournment thereof.

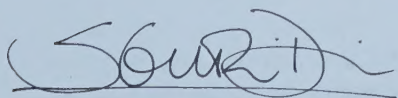
Many shareholders of the Corporation are *non-registered shareholders*. These shareholders fall into two categories: (a) non-objecting beneficial owners (or "NOBOs") who do not object to their name and address being given to the Corporation; and (b) objecting beneficial owners (or "OBOs") who do object to their name and address being given to the Corporation.

If you are a NOBO, the Corporation's agent (Computershare Investor Services Inc.) has sent the enclosed materials directly to you and has obtained your name, address and information about your holdings of securities in accordance with applicable securities regulatory requirements from the intermediary holding securities on your behalf. By choosing to send these materials directly to you, the Corporation (and not the intermediary holding securities on your behalf) has assumed responsibility for (i) delivering these materials to you, and (ii) executing your proper voting instructions. Please return your voting instructions as specified in the enclosed voting instruction form provided by Computershare Investor Services Inc.

If you are an OBO and receive these materials through your broker or through another intermediary, please complete and return the materials in accordance with the instructions provided to you by your broker or by the other intermediary.

DATED the 24th day of March, 2006.

BY ORDER OF THE BOARD



Sebastian T. Guridi  
Corporate Secretary

# MANAGEMENT PROXY CIRCULAR

## SECTION I - VOTING

### PROXY SOLICITATIONS

The form of proxy accompanying this circular is being solicited on behalf of the management of FINNING INTERNATIONAL INC. (the "Corporation"). Management's solicitation of proxies will primarily be by mail, but some proxies may be solicited personally or by telephone by regular employees of the Corporation at a nominal cost. In addition, some proxies may be solicited by investment dealers, but no such arrangements have been made. All solicitation costs will be borne by the Corporation.

### APPOINTMENT OF PROXYHOLDER

A shareholder or, subject to applicable laws, an intermediary who holds shares on behalf of a non-registered shareholder ("intermediary") may, by properly marking, executing and depositing the accompanying form of proxy, appoint as proxyholder the persons named in the accompanying form of proxy, or some other person, who need not be a shareholder. The proxyholder may attend and act for the shareholder or intermediary at the meeting and any adjournment thereof.

### EXECUTION AND DEPOSIT OF PROXY

If a shareholder or intermediary is an individual, the form of proxy must be executed by the shareholder or intermediary or a duly authorized attorney of the shareholder or intermediary. If a shareholder or intermediary is a corporation, the form of proxy must be executed in the presence of a duly authorized attorney or officer of the corporation. Where a form of proxy is executed by an attorney or officer of a corporation, the authorizing documents (or notarized copies thereof) should accompany the form of proxy. Executed forms of proxy must be deposited with Computershare Investor Services Inc., Attention: Proxy Department, 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1 not less than 48 hours, excluding Saturdays and holidays, before the meeting or any adjournment thereof.

### VOTING BY PROXY

Shares represented by a proxy will be voted or withheld from voting, as the case may be, on any ballot that may be called for. A shareholder or intermediary may direct the manner in which the shares represented by the proxy are to be voted by marking the form of proxy accordingly. Where a choice is specified, the shares represented by the proxy will be voted or withheld from voting in accordance with the choice specified. Where no choice is specified in the proxy with respect to a matter identified therein, the shares represented will be voted in favour of any ballot that may be called for on that matter. The accompanying form of proxy confers discretionary authority upon the proxyholder in respect of amendments to the matters identified in the accompanying notice of annual meeting, and in respect of any other matters that may properly come before the meeting.

### REVOCATION OF PROXY

Pursuant to subsection 148(4) of the *Canada Business Corporations Act*, a shareholder or intermediary may revoke a proxy by depositing a written instrument, executed in the same manner as a proxy, at the registered office of the Corporation at any time up to and including the last business day preceding the day of the meeting or any adjournment thereof, or by depositing the instrument with the Chairman of the meeting on the day of the meeting or any adjournment thereof. A proxy may also be revoked in any other manner permitted by law.

### CONFIDENTIALITY OF VOTING

Proxies are counted and tabulated by Computershare Investor Services Inc., the transfer agent of the Corporation, in such a manner as to preserve the confidentiality of individual shareholder votes, except where: (a) the shareholder has made a written comment on the form of proxy or otherwise clearly intends to communicate his or her position to management of the Corporation; or (b) disclosure is required under applicable law or in the event of a proxy contest.

### SHAREHOLDER PROPOSALS

Shareholders who wish to submit proposals for consideration at the 2007 annual meeting of shareholders must deliver their proposals to the Corporation by no later than December 24, 2006. All shareholder proposals must comply with the applicable requirements of the *Canada Business Corporations Act* and shareholders who wish to make such proposals are urged to seek legal advice to ensure their proposal complies with these requirements in full.

## VOTING SHARES

The Corporation is authorized to issue an unlimited number of Common Shares without par value, of which 89,302,830 are currently issued and outstanding. The Board of Directors has fixed the close of business on March 23, 2006 as the record date for the purpose of determining which shareholders are entitled to receive notice of the meeting. Failure to receive such notice does not necessarily deprive a shareholder of the right to vote at the meeting, if the shareholder otherwise complies with the provisions of the By-laws of the Corporation and the *Canada Business Corporations Act* with respect to voting. Each Common Share is entitled to one vote. To the knowledge of management of the Corporation, there is no person who beneficially owns, directly or indirectly, or exercises control or direction over more than 10 percent of the issued Common Shares of the Corporation.

## INTERESTS OF INSIDERS IN MATERIAL TRANSACTIONS

Except as disclosed in this management proxy circular, no director, officer, proposed management nominee, or associate or affiliate of any of the foregoing persons has any material interest in any transaction since the beginning of the Corporation's last completed financial year or in any proposed transaction that has materially affected or will materially affect the Corporation or any of its affiliates.

## SECTION II - BUSINESS OF THE MEETING

### APPOINTMENT OF AUDITORS

The Board of Directors recommends the re-appointment of Deloitte & Touche LLP as auditors of the Corporation to hold office until the next annual meeting at a remuneration to be determined by the directors.

### ELECTION OF DIRECTORS

Pursuant to the By-laws of the Corporation, the Board of Directors has determined that 10 directors will be elected at the meeting. The term of office for all current directors will end on the day of the meeting and management is nominating the 10 individuals described under the heading "Proposed Management Nominees for Election as Directors" which follows. Each director elected at the meeting will hold office until his or her successor is elected at the next annual meeting, unless he or she resigns or is otherwise removed from office earlier.

### APPROVAL OF AMENDED AND RESTATED BY-LAW NO. 1

As part of its ongoing commitment to the highest standards of corporate governance, the Board of Directors reviews, from time to time, the Corporation's by-laws and considers whether amendments are required in order to address changes to applicable legislation, corporate governance policies and guidelines and other developments. The Board conducted its most recent review of the Corporation's by-laws in 2005 and concluded that some minor, administrative changes should be made in order to:

- (a) reflect amendments made to the *Canada Business Corporations Act* since the last time the Corporation's by-laws were updated;
- (b) update some terminology relating to the use of telephone and similar electronic facilities for meetings;
- (c) confirm the Corporation's current practice that all members of the Audit Committee should be independent of management of the Corporation;
- (d) clarify and refine conflict of interest provisions to better conform with the approach and terminology used in the *Canada Business Corporations Act*; and
- (e) reflect certain current best practices with respect to corporate governance, including increasing the quorum requirements for meetings of shareholders from 5% to 25% of the total number of shares eligible to vote.

To implement these minor changes, pursuant to Section 103(1) of the *Canada Business Corporations Act*, the Board of Directors approved an amended and restated form of the Corporation's By-Law No.1 ("By-Law No.1"). The full text of the amended and restated form of By-Law No.1 is attached hereto as Schedule A.

At the meeting, shareholders will be asked to consider and, if thought fit, pass the following ordinary resolution pursuant to Section 103(2) of the *Canada Business Corporations Act*:

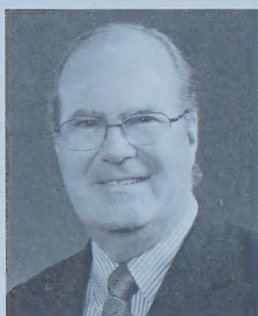
**BE IT RESOLVED** that the Corporation's amended and restated by-law No.1, in the form attached as Schedule A to the management proxy circular for this meeting, is hereby ratified, confirmed and approved.

The Board of Directors unanimously recommends that shareholders vote in favour of the proposed resolution at the meeting.

## PROPOSED MANAGEMENT NOMINEES FOR ELECTION AS DIRECTORS

All proposed management nominees are currently directors of the Corporation except John M. Reid, who is not currently a director of the Corporation, but is being nominated for election at the meeting. All proposed management nominees are ordinarily resident in Canada except Timothy S. Howden and Andrew H. Simon; who are ordinarily resident in the United Kingdom, and Ricardo Bacarreza, who is ordinarily resident in Chile.

Information regarding each of the proposed nominees is set out below.



**RICARDO BACARREZA**  
SANTIAGO, CHILE

Mr. Bacarreza, 60, is currently the President of Pro invest S.A., a financial services company based in Santiago, Chile. In his career, Mr. Bacarreza has been an Economist at the World Bank (Washington, D.C.), a Vice President of Banco Unido De Fomento (Chile) and the President and Chief Executive Officer of Banco Del Trabajo (Chile), La Chilena Consolidada Insurance Company (Chile), Banco Sudamericano (Chile) and Banco BHIF (Chile). Mr. Bacarreza has been on the Board of Directors of a number of companies and has served as director and Chairman of the Chilean Management Institute. He holds a civil engineering degree from Catholic University of Chile and an M.A., M.Sc. and Ph.D. from Stanford University.

### Finning Board Information:

- Director since 1999.
- Member of the Audit Committee and Environment, Health and Safety Committee.
- Ownership of securities:
  - Common Shares: 5,000
  - DSUs: 11,791

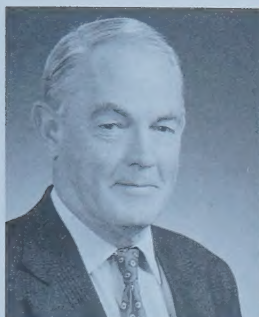


**JAMES F. DINNING**  
CALGARY, ALBERTA, CANADA

Mr. Dinning, 53, is the Chairman of the Board of Western Financial Group, prior to which he was Executive Vice President, TransAlta Corporation from January 2003 to December 2004, Executive Vice President, Sustainable Development and External Relations of TransAlta Corporation from June 1999 to December 2002, Executive Vice President, Energy Marketing from June 1998 to June 1999 and Senior Vice President, Corporate Development from August 1997 to June 1998. Prior to joining TransAlta in 1997, Mr. Dinning held various positions during 11 years as a member of the legislative assembly in Alberta. These included serving as Provincial Treasurer (1992 to 1997), Minister of Education (1988 to 1992) and Minister of Community and Occupational Health (1986 to 1988). In addition to acting as a director of the Corporation, Mr. Dinning is a director of Shaw Communications Inc., Russell Metals Inc. and the Alberta Energy Research Institute. He served as Chair of the Calgary Health Region from 1999 to 2001. He holds a Bachelor of Commerce honours degree and a Masters degree in Public Administration from Queens University. He also holds an honorary Doctor of Laws degree from the University of Calgary.

### Finning Board Information:

- Director since 1997.
- Member of the Human Resources Committee and Environment, Health and Safety Committee.
- Ownership of securities:
  - Common Shares: 13,250
  - DSUs: 20,110



#### **TIMOTHY S. HOWDEN**

MARLOW, BUCKINGHAMSHIRE, ENGLAND

Mr. Howden, 68, is a Corporate Director who serves on the Board of Directors of Hyperion Insurance Group Ltd.. In his career, Mr. Howden has held executive positions at a number of companies involved in the food and household products distribution industries including Reckitt & Colman Plc (General Manager, Marketing Manager and Regional Director, European Division), Rank Hovis McDougall Plc (Group Managing Director, Group Deputy Managing Director, Group Planning Director, Chairman and Chief Executive – Bakeries, Managing Director – Grocery and Sales Director – Flour Milling) and The Albert Fisher Group Plc (Chairman – North America, Chief Executive Officer – North America and Group Chief Executive – Europe).

#### **Finning Board Information:**

- Director since 1998.
- Member of the Audit Committee and Environment, Health and Safety Committee.
- Ownership of securities:
  - Common Shares: 10,500
  - DSUs: 11,246



#### **JEFFERSON J. MOONEY**

VANCOUVER, BRITISH COLUMBIA, CANADA

Mr. Mooney, 61, is the Chairman of A&W Food Services of Canada Inc. In addition to acting as a director of the Corporation, Mr. Mooney is a director of A&W Canada Inc., A&W Trade Marks Inc., A&W Root Beer Beverages of Canada Inc., The Cadillac Fairview Corporation Limited, Ontrea Inc. and Ontrasia Inc.. Mr. Mooney is an alumnus of the University of Saskatchewan and the Harvard University Graduate School of Business.

#### **Finning Board Information:**

- Director since 2000.
- Chairman of the Human Resources Committee and member of the Corporate Governance Committee.
- Ownership of securities:
  - Common Shares: 14,054
  - DSUs: 18,736



#### **DONALD S. O'SULLIVAN**

CALGARY, ALBERTA, CANADA

Mr. O'Sullivan, 66, is the President of O'Sullivan Resources Ltd. In his career, he has also been a director of and involved in a number of businesses including Babichuk Construction, Ft. McMurray Land Development Ltd., Twin Bridges Gravel Ltd., the Westin Hotel (Edmonton), Pacemaker Employee Investments Inc., Time Air Corp., Intera Technologies Corp. and New Gateway Oil and Minerals Ltd. Mr. O'Sullivan also served as the Vice President and Secretary-Treasurer of B&B Distributors, Inc. In addition to acting as a director of the Corporation, Mr. O'Sullivan is a director of National Life Assurance Company of Canada Ltd. He has also been a director of the National Sand and Gravel Association and the STARS Foundation. He holds a Bachelor of Science in Business Administration from the University of Denver.

#### **Finning Board Information:**

- Director since 1991.
- Chairman of the Corporate Governance Committee and member of the Audit Committee.
- Ownership of securities:
  - Common Shares: 51,042
  - DSUs: 22,253



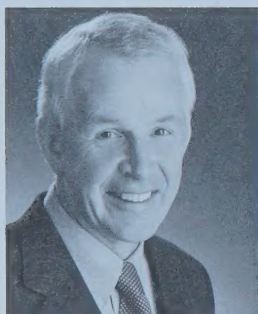
#### CONRAD A. PINETTE

VANCOUVER, BRITISH COLUMBIA, CANADA

Mr. Pinette, 66, became a Corporate Director in January 2006, prior to which he was Executive Vice President, Tolko Industries Ltd., from January 2005 to December 2005, Executive Vice President, Riverside Forest Products Limited from April 2004 to December 2004, and President and Chief Operating Officer of Lignum Limited from January 1990 to April 2004. Mr. Pinette has been a director of a number of private and public forest products and mining companies during his business career. He is currently active in business associations and charitable organizations and is a director of public companies and family corporations. He is an active participant in fundraising for the Cariboo Foundation based in Williams Lake and United Way of the Lower Mainland. Currently he is a director of four public companies – director and Chairman of the Board of Finning International Inc., director of A&W Revenue Royalties Income Fund, director of TimberWest Forest Corporation and director of Northgate Minerals Corporation.

##### Finning Board Information:

- Director since 1992.
- Chairman of the Board of Directors and member of the Corporate Governance Committee.
- Ownership of securities:
  - Common Shares: 48,016
  - DSUs: 46,765



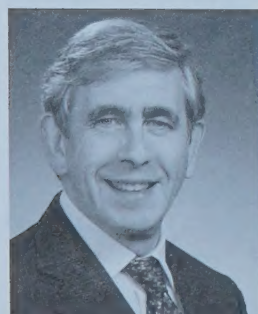
#### JOHN M. REID

VANCOUVER, BRITISH COLUMBIA, CANADA

Mr. Reid, 58, is a Corporate Director. From November 1997 to November 2005 he was President and Chief Executive Officer of Terasen Inc. (formerly BC Gas Inc.). Mr. Reid joined Terasen Inc. in May 1995 as Executive Vice President, Finance and Chief Financial Officer. Formerly, Mr. Reid worked with Scott Paper Limited for 15 years in a number of senior financial positions and as President and Chief Executive Officer. Mr. Reid serves on the boards of Methanex Corporation and the Board of Governors of the University of British Columbia. Over the years, he has served on many boards including MacDonald Dettwiler & Associates Ltd., Lester B. Pearson College, St. Paul's Hospital Foundation, Vancouver Board of Trade, Junior Achievement of British Columbia and the Financial Executives Institute. He is past Chair of the Campaign Cabinet of the United Way of the Lower Mainland. Mr. Reid is a Fellow of the British Columbia and England and Wales Institutes of Chartered Accountants.

##### Finning Board Information:

- Mr. Reid is not currently a director of the Corporation, but is being nominated for election at the meeting.
- If elected, Mr. Reid will be appointed a member of and the designated "financial expert" on the Audit Committee.
- Ownership of securities:
  - Common Shares: 10,000
  - DSUs: Nil



#### ANDREW H. SIMON, OBE

LONDON, ENGLAND

Mr. Simon, 60, is a Corporate Director who serves on the Boards of Directors of a number of companies including SGL Carbon AG, Associated British Ports Plc, Dalkia Plc, Travis Perkins Plc, Management Consulting Group Plc and Brake Brothers Ltd. For most of his career, Mr. Simon worked for the Evode Group, an international specialty chemicals and materials company. At Evode, he held various positions including Managing Director and Chairman and Chief Executive Officer. Mr. Simon holds a Bachelor of Science degree from Southampton University and an MBA from the Wharton School of Finance.

##### Finning Board Information:

- Director since 1999.
- Chairman of the Audit Committee and member of the Corporate Governance Committee.
- Ownership of securities:
  - Common Shares: 7,000
  - DSUs: 12,685



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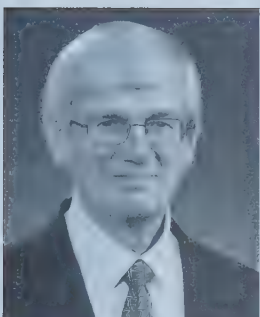
**DOUGLAS W.G. WHITEHEAD**

WEST VANCOUVER, BRITISH COLUMBIA, CANADA

Mr. Whitehead, 59, is the President and Chief Executive Officer of the Corporation. Prior to holding this position, Mr. Whitehead was the President and Chief Operating Officer of the Corporation. Prior to joining the Corporation, Mr. Whitehead held a number of senior executive positions with Fletcher Challenge Canada including President and Chief Executive Officer, Senior Vice President and Chief Operating Officer and Vice President of the Crown Packaging Division. In addition to his position with the Corporation, Mr. Whitehead is a director of Ballard Power Systems Inc., Kinder Morgan Inc. and The Conference Board of Canada. He is a member of the Canadian Council of Chief Executives and the B.C. Progress Board, as well as a member of the Board of Governors of the Business Council of British Columbia and The University of British Columbia. Mr. Whitehead holds a Bachelor of Applied Sciences (Civil Engineering) from the University of British Columbia and an MBA from the University of Western Ontario.

Finning Board Information:

- Director since 1999.
- Member of the Environment, Health and Safety Committee.
- Ownership of securities:
  - Common Shares: 67,679
  - DSUs: 213,160



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**JOHN M. WILLSON**

VANCOUVER, BRITISH COLUMBIA, CANADA

Mr. Willson, 66, is a Corporate Director who serves on the Boards of Directors of Nexen Inc., Pan American Silver Corporation and Aber Diamond Corporation. Mr. Willson holds a B.Sc.(Hons) degree in Mining Engineering from the Royal School of Mines, London University, and an M.Sc. in Mining Engineering from the same institution. In his career, Mr. Willson served as President and Chief Executive Officer of Placer Dome Inc., President and Chief Executive Officer of Pegasus Gold Inc. and President and Chief Executive Officer of Western Canada Steel Ltd. He has also held various operational positions in the mining industry worldwide.

Finning Board Information:

- Director since 2000.
- Chairman of the Environment, Health and Safety Committee and member of the Human Resources Committee.
- Ownership of securities:
  - Common Shares: 7,000
  - DSUs: 12,057

## SECTION III - COMPENSATION

### HUMAN RESOURCES COMMITTEE

#### Composition of the Committee

The Human Resources Committee is composed of four independent directors. The current members of the Committee are: J.J. Mooney (Chairman), J.F. Dinning, M.T. Waites and J.M. Willson. In 2005, the Committee met 4 times in person and twice by telephone.

The Committee has prepared the following report to shareholders on the Corporation's current executive compensation scheme:

#### REPORT ON EXECUTIVE COMPENSATION

One of the key mandates of the Human Resources Committee is to establish a market competitive total compensation program for the executive officers and other key employees. The purpose is to attract, retain and inspire excellence in the performance of executive officers and other key employees. In all its deliberations the Committee takes into account the cost of the Corporation's executive compensation program and the interests of shareholders. The Committee makes recommendations to the full Board of Directors with respect to executive and key employee continuity and any changes to the Corporation's executive compensation program, which the Committee considers to be necessary from time to time.

In arriving at its recommendations, the Committee has access to formal management performance assessments. Further, the Committee receives advice from an independent consultant who provides comparative market data. The peer group includes prominent Canadian industrial companies chosen for similarities to the Corporation in terms of size and complexity. This market data set is also used to develop compensation recommendations for the Chief Executive Officer's compensation.

In addition to market comparisons and individual performance, the Committee considers the long range interests of the Corporation, its shareholders and executive officers, overall financial measures such as share price, return on invested capital, earnings per Common Share and return on common shareholders' equity. In assessing executive performance, the Committee also considers such items as leadership ability, community involvement, health and safety and management of new projects, such as geographic or product expansion, when considering pay decisions, including salary increase and annual and long-term incentive rewards.

#### Total Compensation Objectives

The objectives of Finning's executive compensation program are to:

- enable the Corporation to attract individuals who have the leadership and management skills to drive the future growth and success of the Corporation;
- retain the services of valued members of the Corporation's executive team;
- motivate executives to achieve excellence within their respective areas of responsibility;
- reward individuals for their contributions to the Corporation's success and encourage a strong link between an individual's compensation and the interests of the Corporation and its shareholders; and
- create and maintain the ability to recognize, differentiate and reward individual performance.

#### Total Compensation Components & Market Position (Guidelines)

The total compensation program for executive officers is comprised of five components: base salary, a cash short-term incentive program, long-term incentives, benefits & pension and perquisites.

As a general guide in fixing the level for each of the five components of compensation, the Corporation compares its compensation structure with that of its peer group. The table below sets out the approximate positioning of the Corporation's compensation structure amongst its peer group and shows how the Corporation generally varies this positioning based on the Corporation's financial performance.

**COMPENSATION  
COMPONENT**

**CORPORATION'S PERFORMANCE (% RETURN ON EQUITY)**

	<10%	10%-15%	>15%
Base Salary	50th percentile	50th percentile	50th percentile
Short-Term Incentives	Less than 50th percentile	50th – 60th percentile	75th percentile +
Long-Term Incentives	Less than 50th percentile	50th percentile	50th – 75th percentile +
Benefits & Pension	50th percentile	50th percentile	50th percentile
Perquisites	50th percentile	50th percentile	50th percentile
OVERALL	Less than 50th percentile	50th – 60th percentile	Close to 75th percentile

**Base Salaries**

As a general rule for establishing the base salary, the Committee reviews competitive market data for each of the executive positions and determines placement at approximately the market median. Base salaries may vary above or below the median depending on individual circumstances. Compensation for executives is reviewed annually to reflect external factors such as inflation and market competitiveness. It should be noted that variations from the above occur in compensating executives in foreign markets to meet market demand and prevailing compensation practices in such markets.

**Short-Term Incentives**

It is intended that a substantial portion of the executive's compensation be "at risk" and the second component of the compensation plan, the annual short-term incentive award, recognizes this goal. Incentive award plans include a mix of financial, individual and safety performance targets. Incentive bonuses are only paid when performance achieves certain minimum thresholds and increase as actual results exceed those thresholds. The target incentive goal is 45% (maximum 90%) of salary for the executive group and 60% (maximum 120%) for the Chief Executive Officer.

**Long-Term Incentives**

The third element of total compensation is the long-term incentive plan presently comprised of share option plans and a deferred share unit ("DSU") plan. This long-term incentive plan is intended to emphasize management's commitment to growing the Corporation and enhancing shareholder wealth through consistent improvement in net earnings and return on common shareholders' equity. Stock options were granted in 2005 and 2004 and, although no stock options were granted in 2003, options were granted in some previous years at levels generally reflective of external market competitiveness.

The Corporation's shareholders approved the new 2005 Stock Option Plan for Senior Executives at the 2005 annual meeting, and the Corporation used DSUs and stock options for long-term incentive purposes in 2005. Approximately 50% of the value of long-term incentives were made up of stock option grants and 50% were made up of DSU grants, calculated in each case based on economic value. The Corporation currently expects that long-term incentive grants to senior executives in the future will favour stock options over DSUs.

Stock options and DSUs are granted annually and are generally reflective of the level of management responsibility and external market competitiveness. The DSUs track the value of the Corporation's Common Shares, but do not entitle the holder to receive Common Shares from treasury.

One-third of the stock options vest each year beginning on the first anniversary of the grant date. The DSUs granted since 2002 vest only upon the achievement of pre-defined performance targets. One quarter of the DSUs granted in a particular year will vest when the Corporation's Common Shares increase in price by 10%, 20%, 30% and 40% above the price of the Corporation's Common Shares at the time of grant. Each level of price increase must be maintained in the marketplace for a period of not less than 10 consecutive trading days within five years following the date upon which the DSUs are granted. If the vesting target is not reached and maintained for at least 10 consecutive trading days within a five-year period following the date granted, the number of DSUs attributable to that target will become null and void. Vested DSUs accrue notional dividends that are allocated in the form of additional DSUs based upon the fair market value of Common Shares on the dividend payment date.

Vested DSUs can only be converted into a cash payment or shares upon termination of employment or retirement from the Corporation. DSUs accordingly focus attention on sustained shareholder return.

The Corporation is subject to mark-to-market accounting for vested DSUs until termination of employment. Stock options granted after December 31, 2003 are accounted for by the Corporation as a compensation expense over the three-year vesting period of the stock options.

#### **Pension Plan**

Another element of executive compensation is the Corporation's pension plan, which is discussed in detail later in this management proxy circular.

#### **Chief Executive Officer Compensation**

The Chief Executive Officer's compensation package is based on an independent review of compensation practices within a group of "peer" companies chosen upon the recommendation of external independent compensation consultants. The peer group includes prominent Canadian industrial companies chosen for similarities to the Corporation in terms of size and complexity. This market data set is also used to develop compensation recommendations for other members of the Corporation's executive team.

**Salary** - The salary of the CEO is determined by an analysis of the CEO's position versus the market data for CEOs of the companies in the Corporation's peer group, and with consideration for the CEO's performance. The Board conducts the assessment of the CEO's overall performance, taking into account his absolute performance relative to objectives agreed to at the beginning of each year, and his success in delivering value to shareholders. Within this framework, the Board's decision may therefore result in a salary above or below the market median, which is the level normally targeted by the Board. Actual salary paid to the CEO in 2005 positioned him at the 52nd percentile of the Corporation's peer group.

**Annual Incentive Award** - The CEO has a target award of 60% of salary, with an annual incentive opportunity ranging from 0% to 120% of salary. The performance measures used to determine the annual incentive award, the weighting at a target and maximum attached to each measure, and the 2005 Incentive Award are:

	Weighting for each performance metric		2005 Target	2005 Results	2005 Incentive Award
	Target	Maximum			
Earnings per Share (EPS) <sup>(1)</sup>	27% of salary	54% of salary	\$2.10	\$2.00	14.71% of salary
Return on Equity (ROE) <sup>(1)</sup>	13% of salary	26% of salary	15%	12.9%	4.27% of salary
Workplace Safety <sup>(2)</sup>	10% of salary	20% of salary	1.0	0.72	0% <sup>(3)</sup> of salary
Personal Objectives <sup>(4)</sup>	10% of salary	20% of salary	N/A <sup>(4)</sup>	15%	15% of salary
<b>TOTAL</b>	<b>60% of salary</b>	<b>120% of salary</b>			<b>34% of salary</b>

(1) Normalized for items not reflecting ongoing operations and excluding expenses relating to mark to market adjustments and vesting of long-term incentive plans.

(2) Frequency of lost-time injuries per 200,000 hours of work (lower frequencies reflect better performance).

(3) For 2005, the Corporation achieved better safety performance than target (0.72 vs 1.0). However, the CEO and executive management received no corporate safety award as a result of an employee fatality.

(4) Key strategic and operational objectives approved at the beginning of the fiscal year.

For 2005, the CEO received an award of 34% of salary, commensurate with the levels of performance on the criteria outlined in the preceding tables.

Long Term Incentives – In 2005, the CEO was granted 26,100 DSUs and 60,900 stock options with a notional value equivalent to 1.01 times and 2.35 times his annual salary, respectively. The vesting conditions are identical to those applicable to the rest of the executive group, as described above. The sum of salary, annual incentive and long-term incentive awards placed the CEO in the 34th percentile among market competitors in 2005.

Submitted by the Human Resources Committee:

J.J. Mooney (Chairman)

J.F. Dinning

M.T. Waites

J.M. Willson

## STATEMENT OF EXECUTIVE COMPENSATION

### Summary Compensation Table

The following table sets forth information concerning the total compensation during the three most recently completed financial years of the Corporation for the Corporation's Chief Executive Officer and its four most highly compensated executive officers.

		Annual Compensation			Long-Term Compensation			
					Awards	Payouts		
					Securities Under Options <sup>(2)</sup>	Restricted Shares/ Restricted Share Units <sup>(3)</sup>	LTIP Payouts	All Other Compensation <sup>(4)</sup>
Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation <sup>(1)</sup>	(#)			
Douglas W.G. Whitehead <sup>(5)</sup>	2005	\$840,000	\$285,432	N/A	60,900	26,100	N/A	\$30,546
President and Chief Executive Officer	2004	\$740,000	\$543,456	N/A	56,700	27,600	N/A	\$29,733
	2003	\$715,000	\$584,084	N/A	N/A	78,469	N/A	\$28,423
Nicholas B. Lloyd <sup>(6)</sup>	2005	£250,000	£48,750	N/A	16,800	7,200	N/A	£526
Managing Director, Finning Group, UK	2004	£217,916	£140,847	N/A	12,300	6,000	N/A	£9,535
	2003	US\$175,000	£111,961	N/A	N/A	24,067	N/A	US\$12,878
		£85,416						
Ian M. Reid <sup>(7)</sup>	2005	\$425,000	\$237,150	N/A	16,800	7,200	N/A	\$25,974
President, Finning (Canada)	2004	\$355,000	\$259,363	N/A	12,300	6,000	N/A	\$23,302
	2003	\$340,000	\$218,654	N/A	N/A	20,067	N/A	\$19,699
Brian C. Bell <sup>(8)</sup>	2005	US\$325,000	US\$150,800	N/A	16,800	7,200	N/A	US\$85,247
President, Finning South America	2004	US\$310,000	US\$213,404	N/A	12,300	6,000	N/A	US\$59,966
	2003	\$125,000	US\$180,000	N/A	N/A	20,067	N/A	\$2,000
		US\$175,000						US\$55,673
Wayne M. Bingham <sup>(9)</sup>								
Former Executive	2005	\$445,000	\$62,745	N/A	16,800	7,200	N/A	\$17,756
Vice President and Chief	2004	\$430,000	\$224,589	N/A	12,300	6,000	N/A	\$16,898
Financial Officer	2003	\$286,666	\$259,548	N/A	N/A	31,199 <sup>(10)</sup>	N/A	\$355,733 <sup>(11)</sup>

(1) Except as specifically described, perquisites and other personal benefits do not exceed the lesser of \$50,000 and 10% of the total annual salary and bonus for any of the executive officers.

(2) No stock appreciation rights ("SARs") are outstanding.

(3) This refers to the grant of deferred share units, or "DSUs". None of these DSUs are exercisable until such time as the executive officer ceases to be employed by the Corporation and certain of the DSUs are subject to additional vesting conditions relating to the performance of the Corporation's Common Shares. In addition, each of the individuals named has been granted additional notional DSUs in 2005 to compensate them for dividends on vested DSUs otherwise held as follows: Mr. Whitehead – 1,950 DSUs, Mr. Lloyd – 582 DSUs, Mr. Reid – 540 DSUs, Mr. Bell – 636 DSUs, and Mr. Bingham – 274 DSUs.

(4) Includes the Corporation's contribution under the Corporation's Employee Share Purchase Plan. The executive officers of the Corporation participate in this plan on the same basis as all other employees of the Corporation. Under this plan, employees can contribute up to a specified percentage of their salary towards the market purchase of Common Shares of the Corporation by a trustee, with the Corporation contributing

additional amounts equal to a specified percentage of such employee contributions, up to a specified limit. Also includes, as applicable, interest forgiven under the Corporation's relocation housing mortgage loan program, club dues and entrance fees, and rent subsidies for expatriates under the Corporation's International Assignment Policy.

- (5) Mr. Whitehead was appointed President and Chief Executive Officer in April 2000.
- (6) Mr. Lloyd was appointed Managing Director, Finning Group, UK in December, 2004, prior to which he was Managing Director, Hewden Stuart Plc from August 2003 to December, 2004, Vice Chairman, Finning South America from July 2003 to August 2003, President, Finning South America from April 2003 to July 2003, President and Chief Executive Officer, Finning South America from January 2003 to April 2003 and President and Chief Executive Officer, Finning Chile S.A. from January 2000 to January 2003. For 2003, a portion of Mr. Lloyd's compensation is reported in U.S. dollars and the remainder is reported in U.K. pounds sterling. For 2004 and 2005, Mr. Lloyd's compensation is reported in U.K. pounds sterling.
- (7) Mr. Reid was appointed President of Finning (Canada) in November 1997. Prior to that, Mr. Reid was Vice President, Operations for Finning (Canada).
- (8) Mr. Bell became President, Finning South America in July 2003, prior to which he was Executive Vice President, Customer Support Services of the Corporation from May 1999 to July 2003. A portion of Mr. Bell's compensation for 2003 is reported in Canadian dollars, while the remainder of his compensation is reported in U.S. dollars. For 2004 and 2005, Mr. Bell's compensation is reported in US dollars.
- (9) Mr. Bingham joined the Corporation in May 2003 and became Executive Vice President and Chief Financial Officer in June 2003. Accordingly, his 2003 salary reflects 8 months of employment. Mr. Bingham resigned his position with the Corporation effective January 31, 2006.
- (10) Of the total number of DSUs issued to Mr. Bingham in 2003, 11,132 DSUs were granted to compensate him for incentive benefits he gave up in his previous employment in order to accept a position with the Corporation.
- (11) Mr. Bingham was paid a total of \$300,000 to compensate him for incentive benefits he gave up in his previous employment in order to accept a position with the Corporation.

#### Option Grants During The Most Recently Completed Financial Year

The following table sets forth information concerning the grants of options during the financial year ended December 31, 2005.

Name	Options Granted (#)	Percent of Total Options Granted to Employees in Financial Year(%)	Exercise Price(\$)	Market Value of Options on Date of Grant (\$) <sup>(1)</sup>	Expiration Date
Douglas W.G. Whitehead	60,900	20.9%	\$ 32.44	Nil	May 11, 2012
Nicholas B. Lloyd	16,800	5.8%	\$ 32.44	Nil	May 11, 2012
Ian M. Reid	16,800	5.8%	\$ 32.44	Nil	May 11, 2012
Brian C. Bell	16,800	5.8%	\$ 32.44	Nil	May 11, 2012
Wayne M. Bingham	16,800	5.8%	\$ 32.44	Nil	May 11, 2012

- (1) All options were issued at market price on the date of grant.

#### Aggregated Option Exercises During The Most Recently Completed Financial Year and Financial Year-End Option Values

The following table sets forth information concerning the exercise of options during the financial year ended December 31, 2005, and the value at December 31, 2005 of unexercised in-the-money options held by each of the executive officers named in the Summary Compensation Table. No SARs are outstanding.

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized (\$)	Unexercised Options at Financial Year-End (#) Exercisable/Unexercisable	Value of Unexercised in-the- Money Options at Financial Year-End (\$) <sup>(1)</sup> Exercisable/Unexercisable
Douglas W.G. Whitehead	56,300	\$ 1,378,428	56,150/98,700	\$ 1,086,219/ \$579,558
Nicholas B. Lloyd	45,000	\$ 903,750	4,100/25,000	\$ 31,816/ \$142,592
Ian M. Reid	32,600	\$ 844,100	64,100/25,000	\$ 1,550,566/ \$142,592
Brian C. Bell	60,000	\$ 1,339,200	4,100/25,000	\$ 31,816/ \$142,592
Wayne M. Bingham	Nil	Nil	4,100/25,000	\$ 31,816/ \$142,592

- (1) The Value of Unexercised in-the-Money Options at Financial Year-End was calculated using a Common Share value of \$37.14 which was the closing trading price of the Corporation's Common Shares on the Toronto Stock Exchange on the last trading day of the financial year.

### Value of Vested DSUs and Common Shares At the End of The Most Recently Completed Financial Year

The following table sets out the value, as at December 31, 2005, of all Vested DSUs and Common Shares held by each of the executive officers named in the Summary Compensation Table as of that date.

Name	Number of Vested DSUs as of December 31, 2005	Value of Vested DSUs as of December 31, 2005 <sup>(1)</sup> (\$)	Number of Common Shares as of December 31, 2005	Value of Common Shares as of December 31, 2005 <sup>(1)</sup> (\$)
Douglas W.G. Whitehead	192,580	\$ 7,152,423	67,679	\$ 2,513,598
Nicholas B. Lloyd	56,754	\$ 2,107,856	24,116	\$ 895,668
Ian M. Reid	52,690	\$ 1,956,896	16,454	\$ 611,101
Brian C. Bell	60,662	\$ 2,252,974	10,025	\$ 372,329
Wayne M. Bingham	28,562	\$ 1,060,774	6,375	\$ 236,768

(1) The Value of Vested DSUs and Common Shares as of December 31, 2005 was calculated based on the closing trading price of the Corporation's Common Shares on the Toronto Stock Exchange on the last trading day of the financial year (\$37.14).

### Pension Plan Table

The following table sets forth examples, based on specific categories of average fixed compensation and years of service, of the annual pensions payable in Canadian dollars to the executive officers named in the Summary Compensation Table, except Nicholas B. Lloyd, upon retirement at age 60 under the Corporation's Executive Retirement Plan.

Renumeration (\$)	Years of Service						
	5	10	15	20	25	30	35
400,000	60,000	100,000	140,000	180,000	220,000	260,000	280,000
425,000	63,750	106,250	148,750	191,250	233,750	276,250	297,500
450,000	67,500	112,500	157,500	202,500	247,500	292,500	315,000
475,000	71,250	118,750	166,250	213,750	261,250	308,750	332,500
500,000	75,000	125,000	175,000	225,000	275,000	325,000	350,000
525,000	78,750	131,250	183,750	236,250	288,750	341,250	367,500
550,000	82,500	137,500	192,500	247,500	302,500	357,500	385,000
575,000	86,250	143,750	201,250	258,750	316,250	373,750	402,500
600,000	90,000	150,000	210,000	270,000	330,000	390,000	420,000
625,000	93,750	156,250	218,750	281,250	343,750	406,250	437,500
650,000	97,500	162,500	227,500	292,500	357,500	422,500	455,000
675,000	101,250	168,750	236,250	303,750	371,250	438,750	472,500
700,000	105,000	175,000	245,000	315,000	385,000	455,000	490,000
725,000	108,750	181,250	253,750	326,250	398,750	471,250	507,500
750,000	112,500	187,500	262,500	337,500	412,500	487,500	525,000
775,000	116,250	193,750	271,250	348,750	426,250	503,750	542,500
800,000	120,000	200,000	280,000	360,000	440,000	520,000	560,000
825,000	123,750	206,250	288,750	371,250	453,750	536,250	577,500
850,000	127,500	212,500	297,500	382,500	467,500	552,500	595,000
875,000	131,250	218,750	306,250	393,750	481,250	568,750	612,500
900,000	135,000	225,000	315,000	405,000	495,000	585,000	630,000
925,000	138,750	231,250	323,750	416,250	508,750	601,250	647,500
950,000	142,500	237,500	332,500	427,500	522,500	617,500	665,000
975,000	146,250	243,750	341,250	438,750	536,250	633,750	682,500
1,000,000	150,000	250,000	350,000	450,000	550,000	650,000	700,000
1,025,000	153,750	256,250	358,750	461,250	563,750	666,250	717,500
1,050,000	157,500	262,500	367,500	472,500	577,500	682,500	735,000
1,075,000	161,250	268,750	376,250	483,750	591,250	698,750	752,500
1,100,000	165,000	275,000	385,000	495,000	605,000	715,000	770,000

During 2005, executives of the Corporation, including the executive officers, except Nicholas B. Lloyd, were covered by the Finning International Inc. Retirement Plan (Executive Group) (the "Plan"). The amount of pension payable under the Plan is determined as 2% of a participant's average final earnings multiplied by the total number of years of credited service to a maximum of 35 years. Average final earnings are defined as the average annual pensionable earnings during the 36 consecutive months within the last 10 years of employment in which such earnings were the highest. For pension purposes, executive officer's earnings are equal to 130% of base salary. In 2005, the Plan benefits were subject to a statutory ceiling of \$2,000 of annual pension for each year of credited service. Pensions are reduced for retirement earlier than at age 60.

During 2005, there was a supplementary income plan ("SIP") in force covering all members of the Plan. The amount of pension supplement provided by the SIP is the difference between the amount of pension payable under the Plan and an amount calculated in accordance with the Plan but assuming no statutory ceiling applies to each year of credited service. A 2-½ year service bonus component is part of the pension calculation at age 60 for any member who joined the SIP prior to August 2, 2004. If the total annual amount of pension from the Plan and the SIP exceeds 70% of a participant's final average earnings, it will be reduced to be equal to 70% of the participant's final average earnings.

Mr. Whitehead is entitled to an additional supplement to his pension payable from the SIP. Mr. Whitehead has accrued an additional two years of service for each year of credited service up to December 31, 2003 and one additional year of service in respect of each of 2004 and 2005. In addition, he will accrue an additional year of service for each year of credited service earned after December 31, 2005. Mr. Whitehead's annual pension has been capped at \$450,000, at his own request and as part of Finning's global pension cost reduction initiative.

Mr. Lloyd is a member of the Finning (UK) Ltd. Pension Scheme, which will provide him with a pension at age 62 equal to 2% of final pensionable salary multiplied by the total number of years of credited service. Final pensionable salary, determined at retirement, is equal to the greater of basic annual remuneration at the previous April 6 and the highest annual average pensionable salaries over any three consecutive years during the previous 10 years. Mr. Lloyd was required to contribute to the scheme at the rate of 7% of pensionable salary. Beginning February 1st 2006, Mr. Lloyd is required to contribute to the scheme at the rate of 12% of pensionable salary.

The pensionable salary for 2005 (equal to 130% of base salary for all but Mr. Lloyd), the estimated credited years of service at age 60, the estimated annual pension benefit payable, and the present value of the accrued liability and annual current service costs for each of the Corporation's executive officers is provided in the following table:

Executive Officer	Pensionable Salary for 2005	Estimated Credited Years of Service	Estimated Annual Benefits	Accrued Liability	Service Cost	Vested Status
Douglas W.G. Whitehead	\$ 1,092,000	23	\$ 450,000 <sup>(1)</sup>	\$ 5,903,300	\$ 0	Vested
Nicholas B. Lloyd	£ 250,000	40 <sup>(2)</sup>	£ 200,000	£ 3,116,000	£ 58,000	Vested
Ian M. Reid	\$ 552,500	21	\$ 232,000	\$ 1,456,900	\$ 123,100	Vested
Brian C. Bell	\$ 435,500	16	\$ 139,000	\$ 917,000	\$ 101,000	Vested
Wayne M. Bingham <sup>(3)</sup>	\$ 578,500	N/A	N/A	N/A	N/A	N/A

Notes:

- (1) Mr. Whitehead's annual pension at retirement has been capped at \$450,000, at his own request.
- (2) Mr. Lloyd is a member of the Finning (UK) Ltd. Pension Scheme, and his Estimated Credited Years of Service is based on a normal retirement age of 62.
- (3) Mr. Bingham resigned his position with Finning effective January 31, 2006. Therefore, his pension entitlement will be adjusted accordingly in 2006 as no benefits will accrue after January 31, 2006.

## COMPENSATION OF DIRECTORS

The Chairman of the Board, Conrad A. Pinette, received an annual retainer of \$175,000 in 2005, but did not receive meeting fees or the travel allowance. Directors who are also employees of the Corporation or its subsidiaries do not receive any additional remuneration for acting as directors. Fees payable to other directors for directors' and committee meetings are set out in the table below. If a meeting is held in the city in which a director is resident, he receives a directors' meeting fee of \$1,500 and a fee of \$1,500 for each committee meeting attended. If a meeting is held at a place other than the city in which a director is resident, he receives an additional \$1,500 travel allowance; and if held on a different continent, he receives an additional travel allowance of \$3,000, in recognition of the time required to travel to and from the meeting.

Directors' Remuneration	Amount
Basic Annual Retainer	\$ 21,000
Audit Committee Chair Additional Retainer	\$ 12,000
Other Committee Chair Additional Retainer <sup>(1)</sup>	\$ 7,000
Audit Committee Member Additional Retainer	\$ 6,000
Other Committee Member Additional Retainer <sup>(1)</sup>	\$ 3,000
Board Meeting Fee	\$ 1,500
Committee Meeting Fee <sup>(1)</sup>	\$ 1,500
Board Conference Call Meeting Fee	\$ 1,000
Committee Conference Call Meeting Fee	\$ 1,000

(1) In 2005, The Environmental, Health and Safety Committee Members waived their Additional Retainers and Meeting Fees as a result of an employee fatality.

In 1993, the Corporation established a stock option plan for the directors of the Corporation and also established a stock option plan for the Chairman of the Board of Directors of the Corporation. No options have been granted under either of these plans since April, 2001.

As of the date of this management proxy circular, there were options to acquire 104,667 Common Shares outstanding under these two plans. No further options will be issued under either of these plans.

In lieu of the granting of options to directors, the Corporation issues DSUs to external directors pursuant to the terms of a Share Accumulation Plan for External Directors which was approved by shareholders at the annual meeting held April 26, 2000. Under that plan, directors who are not full-time employees of the Corporation or any of its subsidiaries have the right to acquire DSUs by way of an annual award and in lieu of cash compensation payable for service as a director. DSUs are issued at the fair market value of the Corporation's Common Shares on the date of issuance. DSUs accrue notional dividends that are allocated in the form of additional DSUs based upon the fair market value of Common Shares on the dividend payment date. A total of 1,775 notional dividends were granted to present directors during 2005. When an eligible director ceases to serve on the Board of Directors, he or she will be entitled to receive the value of the DSUs from the Corporation, payable (at the election of the eligible director) either in cash or in Common Shares of the Corporation. If an eligible director elects to receive payment in the form of Common Shares, the Corporation will purchase such Common Shares, on behalf of the eligible director, on the Toronto Stock Exchange. DSUs do not entitle eligible directors to voting rights.

In 2003, 2004 and 2005, each present director who was not an employee of the Corporation was granted the number of DSUs set out in the table below. A total of 14,886 DSUs were granted to directors in 2005.

	Number of DSUs Granted		
	2003	2004	2005
Director			
R. Bacarreza	2,492	1,430	1,295
J.F. Dinning	1,500	1,430	1,295
T.S. Howden	1,500	1,430	1,295
J.J. Mooney	2,492	2,339	2,118
D.S. O'Sullivan	1,500	1,430	1,295
C.A. Pinette	7,500	3,573	3,236
A.H. Simon	2,492	1,430	1,295
M.T. Waites	250	1,430	1,295
J.M. Willson	2,492	2,339	1,295
Total:	22,218	16,831	14,419

In addition, 467 DSUs were granted to J.E. Cleghorn in 2005, who did not stand for re-election at the 2005 annual meeting of shareholders.

## SECTION IV - CORPORATE GOVERNANCE

The Corporation's Board of Directors and management are committed to the highest standards of good corporate governance and understand that such standards are central to the efficient and effective operation of the Corporation in a manner that ultimately enhances shareholder value.

In 2005, National Instrument 58-101 – *Disclosure of Corporate Governance Practices* ("NI 58-101") and National Policy 58-201 – *Corporate Governance Guidelines* ("NP 58-201") were adopted by Canadian securities regulators. NI 58-101 requires issuers such as the Corporation to disclose certain corporate governance practices they have adopted. NP 58-201 provides additional guidance on corporate governance practices.

As required by NI 58-101 and other applicable regulatory instruments, the following disclosure describes the corporate governance policies and initiatives developed by the Corporation. For additional disclosure relating to the Corporation's compliance with the requirements of NI 58-101, see Schedule B.

### BOARD MANDATE AND COMPOSITION

The Board of Directors has overall responsibility for conduct of the business and affairs of the Corporation. The Board discharges this responsibility both directly and through delegating certain authority to committees of the Board and to senior management of the Corporation.

The direct responsibilities of the Board include:

- choosing the Corporation's Chief Executive Officer, who is responsible for all of the Corporation's day-to-day operations;
- reviewing and approving a strategic plan that takes into account an identification of business opportunities and business risks;
- overseeing and monitoring management's systems for the operations of the Corporation;
- monitoring and assessing the Corporation's performance in meeting both short and long-term goals established by the Board;
- directly reviewing and approving major transactions proposed by management;
- reviewing reports and recommendations from committees of the Board with respect to matters such as succession planning and preparation of financial statements and giving necessary directions to management;
- reviewing the content of significant communications with shareholders and the investing public, including this management proxy circular, annual reports, annual information forms and quarterly and annual financial statements; and
- approving the appointment and remuneration of all corporate officers.

The Board of Directors is currently made up of 10 members. The Board has considered which of its members are "independent" for purposes of NI 58-101 and concluded that all directors, other than Douglas W.G. Whitehead (who is the President and Chief Executive Officer of the Corporation) are independent.

In addition, in order to ensure that the Board can function independently from management, the Corporation has separated the role of Chairman of the Board (currently Conrad A. Pinette) and Chief Executive Officer (currently Douglas W.G. Whitehead).

Finally, each year the Board (with the assistance of the Corporate Governance Committee) formally reviews its own performance, the performance of each committee of the Board, the performance of the Chairman of the Board and the performance of the Chief Executive Officer. In addition, a formal process of individual director peer assessment has been adopted.

As part of its oversight responsibilities, the Board has approved a number of written policies, job descriptions and mandates. These include: "Terms of Reference for the Board of Directors" (attached hereto as Schedule C); "Terms of Reference for the President and Chief Executive Officer"; "Terms of Reference for the Corporate Governance Committee"; "Terms of Reference for External Auditor"; a "Code of Ethics and Conduct"; a "Code of Ethics for Senior Financial Officers"; a "Whistleblower Policy"; a "Policy on Share Trading and Use of Material Information"; a "Corporate Disclosure Policy"; and an "Employee Privacy Policy". The full text of each of these policies can be found on the Corporation's website at [www.finning.com](http://www.finning.com). In addition, any shareholder may request paper copies of any such policy by contacting the Corporate Secretary.

The Code of Ethics and Conduct, the Code of Ethics for Senior Financial Officers and the Policy on Share Trading and Use of Material Information are signed by appropriate employees in order to confirm that such employees are aware of these policies and to acknowledge that they are bound by the terms thereof.

During 2005, the Board of Directors met on 7 occasions, including one special meeting devoted exclusively to the Corporation's corporate strategy and direction. 6 of these meetings were in person and 1 was by telephone. At its meetings, the Board regularly discusses issues without the presence of management.

## **ORIENTATION AND CONTINUING EDUCATION**

The Board has recently adopted a new Director Orientation and Continuing Education Program. The purpose of the program is to familiarize new directors with the Corporation and its business and to facilitate Board members access to relevant education programs. The program is overseen by the Corporate Governance Committee.

All new directors are provided with a detailed package of information describing the Corporation and its business. In addition, all new directors meet with senior management for detailed briefings on strategic plans, governance structures and codes of conduct, significant accounting and risk management issues, financial reporting and accounting policies and procedures and other topics. Finally, where appropriate the orientation program involves direct visits to plant sites and facilities.

The continuing education portion of the program involves periodic presentations on specific topics related to the Corporation and its business and regular visits to plant sites and facilities (including scheduling Board meetings at such sites and facilities from time to time). In addition, the Corporate Secretary is responsible for identifying other available relevant educational programs and informing the Board of those opportunities.

Each director ultimately assumes responsibility for keeping himself informed about the Corporation's business and relevant developments outside the Corporation which affect its business. Management assists directors by providing them with regular updates on relevant developments and other information which management considers of interest to the Board.

## **ETHICAL BUSINESS CONDUCT**

As noted above, the Corporation has adopted a Code of Ethics and Conduct which governs the behaviour of all directors, officers and employees of the Corporation and its subsidiaries. The Code sets out the fundamental terms upon which the Corporation conducts its business and deals with subjects such as compliance with laws, fiscal integrity and responsibility, health and safety, care of the environment, conflicts of interest, ensuring equal opportunities and providing a workplace free from harassment. The full text of the Code of Ethics and Conduct can be found on the Corporation's website at [www.finning.com](http://www.finning.com).

## **COMMITTEES OF THE BOARD OF DIRECTORS**

There are currently 4 committees of the Board of Directors: the Corporate Governance Committee, the Audit Committee, the Human Resources Committee and the Environmental, Health and Safety Committee. Each committee operates in accordance with Board-approved terms of reference. The Board may create a new committee or disband a current committee whenever it considers it advisable to do so, provided that the Corporation must always have an Audit Committee.

The Board rotates committee members and committee chairs from time to time as required. In doing so, the Board tries to make use, to the extent possible, of the particular expertise of each of the directors.

Committee chairs, in consultation with members, determine the frequency of meetings for each committee, provided that a committee must at all times comply with its terms of reference. The agenda for each meeting is established by the committee chair in consultation with appropriate members of management and the Corporate Secretary. Each committee reports to the full Board with respect to each of its meetings.

Committee members are appointed annually following the Corporation's annual meeting. The Corporate Governance Committee provides recommendations to the Board in respect of all such appointments.

The following is a description of the composition and mandate for each of the committees of the Board.

### **THE CORPORATE GOVERNANCE COMMITTEE**

The terms of reference for the Corporate Governance Committee require that it be comprised solely of independent directors. The current members of the Committee are D.S. O'Sullivan (Chairman), J.J. Mooney, C.A. Pinette and A.H. Simon.

The mandate of the Corporate Governance Committee is to enhance corporate performance by assessing and making recommendations regarding Board effectiveness and by establishing a process for identifying, recruiting, appointing and re-appointing directors and providing for the on-going development of current Board members.

A healthy governance culture demands that both management and the Board engage in continuous constructive discussions to delineate their respective roles in changing circumstances. The Corporate Governance Committee monitors the flow of information between the Board and management and, where necessary, makes recommendations on improving these lines of communication.

The Committee met 4 times in person in 2005 in conjunction with regularly scheduled Board meetings. During its meetings, the Committee dealt with various corporate governance matters consistent with its terms of reference contained in the Corporation's Board policy manual. The Board policy manual sets out responsibilities and terms of reference for the directors, the Chairman of the Board, the Chief Executive Officer and the various committees of the Board and includes a review process for the Chairman of the Board, the Chief Executive Officer, the Board, the Board Committees and individual directors. The most recent review process was conducted throughout 2005 and concluded in early 2006.

The Committee also reviews the Board policy manual from time to time and recommends amendments to its provisions as required.

### **THE AUDIT COMMITTEE**

The terms of reference for the Audit Committee require that it be comprised of at least three independent directors. The current members of the Committee are A.H. Simon (Chairman), R. Bacarreza, T.S. Howden, D.S. O'Sullivan and M.T. Waites. In addition, Conrad A. Pinette attends meetings of the Audit Committee in his capacity as Chairman of the Board. All Committee members are required to be financially literate and at least one member is required to have accounting or related financial management expertise. During 2005, Mr. Waites was the designated "financial expert" member of the Committee. Mr. Waites will not stand for re-election at the 2006 Annual Meeting of Shareholders. If elected, Mr. John M. Reid will be appointed member and the designated "financial expert" member of the Committee.

The Committee provides assistance to the Board of Directors in fulfilling its oversight responsibility to the shareholders with respect to the

Corporation's: (a) financial statements; (b) financial reporting process; (c) systems of internal and disclosure controls; (d) internal audit function; (e) external audit function; (f) financial arrangements and liquidity; and (g) risk identification, assessment and management program.

It is the responsibility of the Committee to maintain an open avenue of communication between itself, the external auditors, the internal auditors and the management of the Corporation. In performing its role, the Committee is empowered to investigate any matter brought to its attention, with full access to all books, records, facilities and personnel of the Corporation. It is also empowered to retain outside counsel or other experts as required.

The Committee met 4 times in 2005 in conjunction with regularly scheduled Board meetings.

Fees paid or accrued by the Corporation and its major business units or subsidiaries for audit and other services provided by Deloitte & Touche LLP (the Corporation's external auditors) during 2005 and 2004 were as follows (such amounts were billed in various currencies and converted to Canadian dollars using the exchange rates in existence at the time of billing):

Type of Service Provided	2005	2004
Audit Services	\$ 2,262,750	\$ 2,191,400
Audit-Related Services <sup>(1)</sup>	\$ 61,200	\$ 62,700
Tax Services <sup>(2)</sup>	\$ 862,975	\$ 1,678,896
Other Services <sup>(3)</sup>	Nil	Nil
<b>Total:</b>	<b>\$ 3,186,925</b>	<b>\$ 3,932,996</b>

Notes:

- (1) Audit-related services include assurance and related services, such as audits of the Corporation's pension plans, that were reasonably related to the performance of the audit or review of the Corporation's financial statements not reported as Audit Services.
- (2) Tax services include tax compliance reviews, review of the tax impact of specific transactions, assistance with inquiries from tax authorities and international relocation advice.
- (3) Other services would include any non audit-related or non tax services.

The Audit Committee has adopted a formal policy requiring the pre-approval of non-audit services to be provided by its external auditors, Deloitte and Touche LLP, prior to the commencement of the engagement. Between regularly scheduled Audit Committee meetings, the Committee has delegated to the Chair of the Audit Committee the authority to approve individual non-audit service engagements that have not been pre-approved. All engagements where such approval was granted will be reported at the next Audit Committee meeting. Under no circumstances will the Corporation's management engage the external auditors to perform services that have not been approved by the Audit Committee. Management and the external auditor are required to report quarterly to the Audit Committee all services provided by the external auditor and fees paid or accrued for the fiscal year-to-date.

The Committee determined that the provision of the audit-related and tax-related services described above did not compromise the independence of Deloitte & Touche LLP for purposes of performing audit services for the Corporation. In addition, as the Corporation's external auditors, Deloitte & Touche LLP are required to comply with the terms of the Corporation's "Terms of Reference for External Auditors".

#### Internal and Disclosure Controls

The Committee requires the Corporation to maintain appropriate internal control procedures, including internal controls over financial reporting. Pursuant to Multilateral Instrument 52-109 (MI 52-109) issued by the Canadian Securities Administrators (the "CSA"), the Corporation's Chief Executive Officer and Chief Financial Officer are required to certify the Corporation's interim and annual filings.

The Audit Committee, both directly and through oversight and direction of management, has taken steps and implemented processes to ensure that the Corporation complies with its obligations under this instrument.

These steps include:

- Ensuring the appropriate level of internal controls, analysis and reporting systems are in place to permit the Chief Executive Officer and Chief Financial Officer, or the person performing those functions ("Certifying Officers") to provide all necessary certifications of the Corporation's interim and annual filings. In 2004 and 2005, the Certifying Officers certified that the interim and annual filings did not contain a misrepresentation or omission of a material fact and that the filings present fairly the Corporation's financial condition, results of operations and cash flow. In addition, beginning with the 2005 annual filing, the Certifying Officers have also certified that disclosure controls and procedures have been put in place, and that these controls and procedures provide reasonable assurance that all relevant information considered necessary for disclosure has been communicated to management on a timely basis and disclosed in the annual filings.
- Monitoring the Corporation's progress on its project related to management's first report on the assessment of the effectiveness of internal controls over financial reporting currently proposed under MI 52-109. Management's first report is expected to be signed as at December 31, 2007.

### **Enterprise Risk Management**

The Corporation is dedicated to a strong risk management culture to protect and enhance shareholder value. As such, the Corporation has adopted an Enterprise Risk Management approach to identifying and evaluating risks. On a quarterly basis, the Audit Committee reviews the Corporation's processes with respect to risk assessment and management of key risks, including the Corporation's major financial risks and exposures and the steps taken to monitor and control such exposures. The Enterprise Risk Management Process involves the identification, by each of the Corporation's significant operations, of key risks that could impact the achievement of the Corporation's strategic plan. The management of each of these key risks is monitored closely and disclosed annually in the Corporation's annual information form. Any changes to the key risks are disclosed on a quarterly basis in the Corporation's interim financial filings.

For more information regarding the Audit Committee and its mandate, please refer to the section entitled "Audit Committee" in the Corporation's most recent annual information form.

### **THE HUMAN RESOURCES COMMITTEE**

The composition and one of the key mandates of the Human Resources Committee with respect to human resources and compensation matters is described in full earlier in this management proxy circular. In addition, the Committee reviews and approves the succession plan for the Chief Executive Officer and for the executive leadership team; reviews and approves any significant changes to the organizational structure; and reviews engagement of the workforce. The Committee also reviews, with the Corporation's management pension committee: (a) the pension fund investment strategy; (b) the choice of fund manager(s) for the Corporation's pension funds; (c) the ongoing performance of the fund manager(s); (d) the design and benefits of the Corporation's pension plans; and (e) contribution levels and funding status of the Corporation's pension plans.

### **THE ENVIRONMENTAL, HEALTH AND SAFETY COMMITTEE**

The terms of reference for the Environmental, Health and Safety Committee require that it be comprised of at least three directors, at least two of whom must be independent directors. The current members of the Committee are: J.M. Willson (Chairman), R. Bacarreza, J.F. Dinning, T.S. Howden and D.W.G. Whitehead.

The mandate of the Committee is to encourage, assist and counsel the management of the Corporation in its drive towards attaining and maintaining a high level of performance in areas relating to the environment, health and safety. The Committee also seeks to ensure, through the management of the Corporation, that the Corporation's employees and contractors enjoy a safe and healthy workplace.

The Committee pursues the corporate goal of reducing injuries in the workplace through the adoption, monitoring and enforcement of policies and procedures designed to meet or exceed the environmental, health and safety goals which the Corporation has set for itself and applicable regulatory requirements.

The Committee met 4 times in 2005 in conjunction with regularly scheduled Board meetings.

## SUMMARY OF ATTENDANCE OF DIRECTORS

The following table sets out the attendance of directors at Board meetings and meetings of the committees of the Board of Directors of which they were members during 2005:

Director	Board Meetings Attended	Committee Meetings Attended
R. Bacarreza	7 of 7	8 of 8
J.F. Dinning	7 of 7	10 of 10
T.S. Howden	7 of 7	8 of 8
J.J. Mooney	7 of 7	10 of 10
D.S. O'Sullivan	7 of 7	8 of 8
C.A. Pinette	7 of 7	4 of 4 <sup>(1)</sup>
A. H. Simon	7 of 7	8 of 8
M.T. Waites	6 of 7	8 of 8
D.W.G. Whitehead	7 of 7	4 of 4 <sup>(2)</sup>
J.M. Willson	7 of 7	10 of 10

Notes:

- (1) Refers to meetings of the Corporate Governance Committee, of which he is a member. In addition, Mr. Pinette attended 11 meetings of various other committees as an ex officio representative in his capacity as Chairman of the Board of Directors.
- (2) Mr. Whitehead attended 4 meetings of the Environmental, Health and Safety Committee, of which he is a member; and 10 meetings of various committees in his capacity as President and Chief Executive Officer.

It should be noted that the summary of attendance of directors at meetings of the Board of Directors and committees of the Board of Directors is not strictly indicative of the contribution made by each director and that absence from a meeting may result from a variety of factors or causes.

## MINIMUM SHAREHOLDING REQUIREMENTS

The directors of the Corporation have fixed minimum requirements for share ownership by the Corporation's directors, the Chief Executive Officer and executive management. These requirements are described below.

Within two years after their appointment or election to the board, each director must hold the greater of: (a) Common Shares having a value equal to the annual fee then paid to directors; or (b) 2,000 Common Shares. Within five years after their appointment or election to the board, each director must hold the greater of: (a) Common Shares having a value equal to three times the annual fee then paid to directors; or (b) 5,000 Common Shares.

The Chief Executive Officer is required to hold, at a minimum, that number of Common Shares and vested DSUs of the Corporation with a value equal to three times annual salary within five years after appointment to that position.

Executive management members are required to hold, at a minimum, that number of Common Shares and vested DSUs of the Corporation with a value equal to 1.5 times annual salary within five years after appointment to that position.

The Corporate Secretary of the Corporation annually reviews compliance with the foregoing requirements. The most recent review indicates that all directors, the Chief Executive Officer and executive management are not only in compliance, but exceed applicable targets.

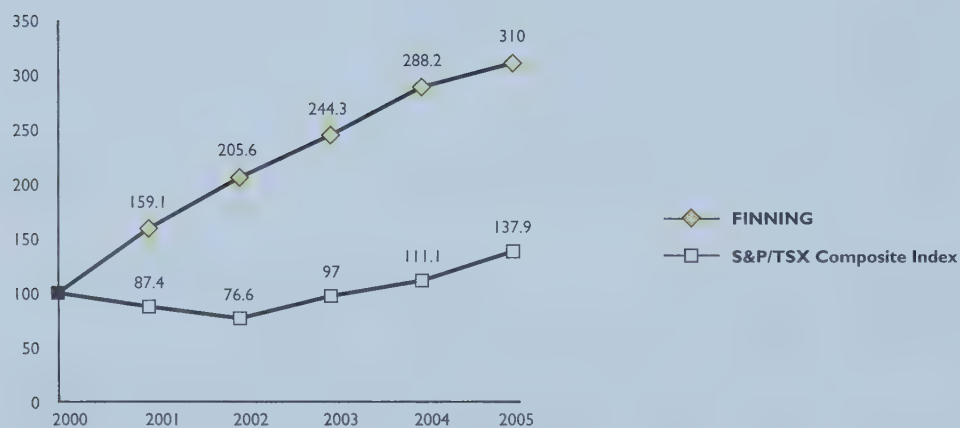
## SECTION V - OTHER INFORMATION

Information contained herein is given as of March 24, 2006, except as otherwise provided.

### COMPARATIVE SHAREHOLDER RETURN

The following graph compares the yearly percentage change in the Corporation's cumulative total shareholder return on its Common Shares with the cumulative total return of the S&P/TSX Composite Index, assuming the re-investment of dividends, for the last five financial years:

	2000	2001	2002	2003	2004	2005
Finning	100	159.1	205.6	244.3	288.2	310
S&P/TSX Composite Index	100	87.4	76.6	97	111.1	137.9



### DIRECTORS AND OFFICERS LIABILITY INSURANCE

The Corporation provides liability insurance for its directors and officers in those capacities. In 2005, the Corporation paid a premium of US\$203,500 for directors' and officers' liability insurance. The policy limits for 2005 were US\$24,000,000 per occurrence, subject to a deductible of US\$500,000 per occurrence in the case of a claim against the Corporation.

Effective February 16, 2006, the policy limit was increased to \$50,000,000 per occurrence, subject to a deductible of \$500,000 per occurrence in the case of a claim against the Corporation.

## AVAILABILITY OF DOCUMENTS

The Corporation will provide to any person or company, upon request to the Corporate Secretary of the Corporation, one copy of any of the following documents:

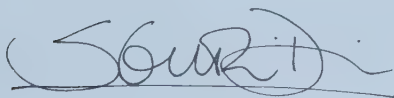
- (a) the Corporation's latest annual information form, together with any document, or the pertinent pages of any document incorporated therein by reference, filed with the applicable securities regulatory authorities;
- (b) the comparative financial statements of the Corporation filed with the applicable securities regulatory authorities for the Corporation's most recently completed financial year in respect of which such financial statements have been issued, together with the report of the auditor thereon, management's discussion and analysis and any interim financial statements of the Corporation filed with the applicable securities regulatory authorities subsequent to the filing of the annual financial statements; and
- (c) the management proxy circular of the Corporation filed with the applicable securities regulatory authorities in respect of the most recent annual meeting of shareholders of the Corporation which involved the election of directors.

Copies of the above documents will be provided free of charge to security holders of the Corporation. The Corporation may require the payment of a reasonable charge from any person or company not a security holder of the Corporation, that request a copy of any such document. In addition, copies may also be obtained over the internet at [www.sedar.com](http://www.sedar.com).

## APPROVAL OF THIS CIRCULAR

The contents and the sending of this circular have been approved by the directors.

Dated as of March 24, 2006.



Sebastian T. Guridi  
Corporate Secretary

## SCHEDULE A

FINNING INTERNATIONAL INC.

AMENDED AND RESTATED BY-LAW NO. 1

### ARTICLE ONE

#### INTERPRETATION

1.01 **Definitions.** In the by-laws of the Corporation, unless the context otherwise requires:

- (a) "Act" means the *Canada Business Corporations Act* (S.C. 1985, Chap. 44), and any statute that may be substituted therefor, as from time to time amended;
- (b) "articles" means the articles attached to the certificate of continuance continuing the Corporation under the Act, as the same are from time to time amended or restated;
- (c) "board" or "board of directors" means the board of directors of the Corporation;
- (d) "by-laws" means this by-law and all other by-laws of the Corporation from time to time in force and effect;
- (e) "Corporation" means Finning International Inc., formerly Finning Tractor & Equipment Company Limited, continued by the certificate of continuance under the Act;
- (f) "meeting of shareholders" includes an annual meeting of shareholders and a special meeting of shareholders; and
- (g) "special meeting of shareholders" includes a meeting of any class or classes of shareholders and a special meeting of all shareholders entitled to vote at an annual meeting of shareholders.

Save as aforesaid, words and expressions defined in the Act have the same meanings when used herein; and words importing singular number include the plural and vice versa; words importing gender include the masculine, feminine and neuter genders; and words importing persons include individuals, bodies corporate, partnerships, trusts, executors, administrators, legal representatives and unincorporated organizations.

1.02 **Headings.** The headings of Articles and Sections are inserted for convenience of reference only and shall not affect the construction or interpretation of this or any subsequent by-law.

### ARTICLE TWO

#### BUSINESS OF THE CORPORATION

2.01 **Financial Year.** Until changed by the board, the financial year of the Corporation shall end on the last day of December in each year.

2.02 **Execution of Instruments.** All deeds, transfers, assignments, contracts, obligations, certificates and other instruments in writing (except instruments in writing made in the ordinary course of the Corporation's business) requiring execution by the Corporation shall be signed:

- (a) by such person or persons as are designated by resolution of the board or as are designated by persons appointed for such purpose by the board; or
- (b) by the secretary or an assistant secretary for the purpose of certifying copies of or extracts from the articles or by-laws of the Corporation, minutes of meetings or resolutions of the shareholders or the board or committees of the board, or any instrument executed or issued by the Corporation.

### ARTICLE THREE

#### BORROWING AND SECURITIES

3.01 **Borrowing Power.** Without limiting the powers of the Corporation as set forth in the Act, the board may from time to time:

- (a) borrow money upon the credit of the Corporation;
- (b) issue, reissue, sell or pledge bonds, debentures, notes or other evidences of indebtedness or guarantee of the Corporation, whether secured or unsecured;
- (c) subject to the Act, give the guarantee of the Corporation; and
- (d) charge, mortgage, hypothecate, pledge or otherwise create a security interest in all or any currently owned or subsequently

acquired real or personal, movable or immovable, property of the Corporation, including book debts, rights, powers, franchises and undertakings, to secure any such bonds, debentures, notes or other evidences of indebtedness or guarantee or any other present or future indebtedness, liability or obligation of the Corporation.

Nothing in this Section limits or restricts the borrowing of money by the Corporation on bills of exchange or promissory notes made, drawn, accepted or endorsed by or on behalf of the Corporation.

- 3.02 **Rights Attaching to Debt Obligations.** Any bonds, debentures or other debt obligations of the Corporation may be issued at a discount, premium or otherwise, and with any special privileges as to redemption, surrender, drawing, allotment of or conversion into or exchange for shares or other securities, attending and voting at general meetings of the Corporation, appointment of directors or otherwise and may by their terms be assignable free from any equities between the Corporation and the person to whom they were issued or any subsequent holder thereof, all as the board may determine.

#### ARTICLE FOUR DIRECTORS

- 4.01 **Number of Directors and Quorum.** The board shall consist of such number, not fewer than the minimum number and not more than the maximum number provided in the articles, as is determined from time to time by resolution of the board. Subject to Section 4.09, the quorum for the transaction of business at any meeting of the board shall be a majority of the board. A director interested shall be counted in a quorum despite his interest.
- 4.02 **Election and Term.** The election of directors shall take place at each annual meeting of shareholders and all the directors then in office shall retire but, if qualified, shall be eligible for re-election.
- 4.03 **Meeting by Telephone and Other Facilities.** If all the directors of the Corporation consent, a director may participate in a meeting of the board or of a committee of the board by means of a telephonic, electronic or other communication facility that permits all persons participating in the meeting to communicate adequately with each other, and a director participating in such a meeting by such means is deemed to be present at the meeting. Any such consent shall be effective whether given before or after the meeting to which it relates and may be given with respect to all meetings of the board and committees of the board.
- 4.04 **Calling of Meetings.** Meetings of the board shall be held from time to time at such time and at such place in or outside of Canada as the board, the chairman of the board, the president, a vice-president, or any one director may determine.
- 4.05 **Notice of Meeting.** Subject to Sections 4.06 and 4.08, notice of the time and place of each meeting of the board shall be given to each director at least 48 hours before the time when the meeting is to be held or such lesser time as may be reasonable under the circumstances. In addition to any other method of communication provided for herein, notice of a directors' meeting may be given by telephone.
- 4.06 **First Meeting of Directors.** Provided a quorum of directors is present, each newly elected board may without notice hold its first meeting immediately following the meeting of shareholders at which the board is elected.
- 4.07 **Adjourned Meeting.** Notice of an adjourned meeting of the board is not required if the time and place of the adjourned meeting is announced at the meeting from which the adjournment is taken.
- 4.08 **Regular Meetings.** The board may appoint a day or days in any month or months for regular meetings of the board at a place and hour to be named. A copy of any resolution of the board fixing the place and time of the regular meetings shall be sent to each director forthwith after being passed, but no other notice shall be required for any regular meeting except where the Act requires the business to be transacted to be specified.

- 4.09 **Residency Requirement.** The board shall not transact business at a meeting unless at least twenty-five percent (25%) of the directors present at such meeting are resident Canadians, except where:
- (a) a resident Canadian director who is unable to be present approves in writing or by telephonic, electronic or other communications facilities the business transacted at the meeting; and
  - (b) a majority of resident Canadians would have been present had that director been present at the meeting.
- 4.10 **Action by the Board.** The board shall manage the business and affairs of the Corporation. Subject to Section 4.09, the powers of the board may be exercised at a meeting at which a quorum is present or by resolution in writing signed by all the directors entitled to vote on that resolution at a meeting of the board. Where there is a vacancy in the board, the remaining directors may exercise all the powers of the board so long as a quorum remains in office.
- 4.11 **Chairman.** The chairman of the board, if any, or in his absence, the vice-chairman, if any, or in his absence, the president shall preside as chairman at every meeting of directors, or if none of the chairman of the board, the vice-chairman or the president is present within 15 minutes of the time appointed for holding the meeting or is willing to act as chairman, or if the chairman of the board, the vice-chairman and the president have advised the secretary that they will not be present at the meeting, the directors present shall choose one of their number to be chairman of the meeting.
- 4.12 **Votes to Govern.** At all meetings of the board every question shall be decided by a majority of the votes cast on the question.
- 4.13 **Remuneration and Expenses.** The directors shall be paid such remuneration for their services to the Corporation as the board may from time to time determine. The directors shall also be entitled to be reimbursed for traveling and other expenses properly incurred by them in attending meetings of the board or any committee thereof. Nothing herein contained shall preclude any director from serving the Corporation in any other capacity and receiving remuneration therefor.

## ARTICLE FIVE COMMITTEES

- 5.01 **Committees of Directors.** The board may constitute, dissolve or reconstitute committees of directors, however designated, and delegate to such committee or committees any of the powers of the board except those which, under the Act, a committee of directors has no authority to exercise. There is no minimum residency requirement for the composition of committees.
- 5.02 **Audit Committee.** The board shall elect annually from among its number an audit committee to be composed of not less than three directors of whom all members shall not be officers or employees of the Corporation or any of its affiliates. The audit committee shall review the annual audited statements of the Corporation before, and shall comment thereon at the time that, such statements are submitted to the board for approval.
- 5.03 **Transaction of Business.** The powers of a committee of directors may be exercised by a meeting at which a quorum is present including meetings by telephonic, electronic or other communication facility to the extent permitted by Section 4.03, or by a resolution in writing signed by all members of the committee who would have been entitled to vote on that resolution at a meeting of the committee. Meetings of a committee may be held at any place in or outside of Canada. Unless otherwise determined by the board, the majority of the members of a committee shall constitute a quorum thereof. Questions arising at any meeting shall be determined by a majority of the votes cast on the question, and in the case of an equality of votes the chairman of the meeting shall be entitled to a second or casting vote.
- 5.04 **Procedure.** Subject to the provisions of these by-laws, and unless otherwise determined by the board, each committee shall meet and adjourn as it thinks proper and shall have power to elect its chairman, to make rules for the conduct of its business and to appoint such assistants as it may deem necessary. Each committee shall keep regular minutes of its transactions, shall cause them to be recorded in books kept for that purpose, and shall report the same to the board at such times as the board may from time to time require.

## ARTICLE SIX OFFICERS

- 6.01 **Appointment.** The board may from time to time appoint a chairman of the board, a president and such other officers as it shall consider appropriate and may delegate to any one or more of such officers the authority to appoint additional officers. The board, or in the case of an officer appointed by another officer, the appointing officer, may specify the duties, terms of employment and remuneration of such officers. Subject to the Act, the board may delegate to such officers powers to manage the business and affairs of the Corporation. The chairman of the board and the president shall be directors. Any officer other than the chairman of the board and the president may but need not be a director and one person may hold more than one office.
- 6.02 **Term of Office.** The board, or in the case of an officer appointed by another officer, the appointing officer, may remove any officer of the Corporation without prejudice to the officer's rights under any employment contract. Otherwise each officer appointed by the board shall hold office at the pleasure of the board, or until his earlier resignation.

## ARTICLE SEVEN PROTECTION AND INDEMNITY OF DIRECTORS AND OFFICERS

### 7.01 Conflicts of Interest.

- (a) **Affiliated Positions.** Subject to compliance with the Act, no director shall be disqualified by his office or by reason of holding any other office or place of profit under the Corporation or under any body corporate in which the Corporation shall be a share holder.
- (b) **Disclosure of Interests.** A director or an officer of a Corporation shall disclose to the Corporation, in writing or by requesting to have it entered in the minutes of meetings of directors or of meetings of committees of directors, the nature and extent of any interest that he or she has in a material contract or material transaction, whether made or proposed, with the Corporation, if the director or officer:
- (i) is a party to the contract or transaction;
  - (ii) is a director or an officer, or an individual acting in similar capacity, of a party to the contract or transaction; or
  - (iii) has a material interest in a party to the contract or transaction.
- The disclosure shall be made at such time(s) and in such form as the Act may require.
- (c) **Voting.** A director required to make a disclosure under subsection (1) shall not vote on any resolution to approve the contract or transaction unless the contract or transaction:
- (i) relates primarily to his or her remuneration as a director, officer, employee or agent of the Corporation or an affiliate;
  - (ii) is for indemnity or insurance; or
  - (iii) is with an affiliate.

### 7.02 Indemnity.

- (a) The Corporation shall indemnify a director or officer of the Corporation, a former director or officer of the Corporation or a person who acts or acted at the Corporation's request as a director or officer of a body corporate of which the Corporation is or was a direct or indirect shareholder or creditor, and his heirs and legal representatives, except in respect of an action by or on behalf of the Corporation or such body corporate to procure a judgment in its favour, against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by him in respect of any civil, criminal or administrative action or proceeding to which he is made a party by reason of being or having been a director or officer of the Corporation or such body corporate if:
- (i) he acted honestly and in good faith with a view to the best interests of the Corporation; and
  - (ii) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, he had reasonable grounds for believing that his conduct was lawful.
- (b) The Corporation shall with the approval of a court indemnify a person referred to in subsection (a) in respect of an action by or on behalf of the Corporation or such body corporate to procure a judgment in its favour, to which he is made a party by reason of being or having been a director or an officer of the Corporation or such body corporate, against all costs, charges and expenses reasonably incurred by him in connection with such action if he fulfills the conditions set out in clauses (i) and (ii) (if applicable) of subsection (a).

- (c) The matters against which a director and officer is entitled to be indemnified pursuant to this Section 7.02 shall, to the maximum extent permitted by law, include:
- (i) costs, charges and expenses incurred by such director or officer in connection with any investigation relating to any matter in respect of which the Corporation would be required to indemnify pursuant to subsection (a) of this Section 7.02 if an action were commenced; and
  - (ii) costs, charges and expenses incurred by such director or officer in establishing his right to be indemnified pursuant to this Section 7.02.
- 7.03 **Limitation of Liability.** Except as otherwise provided in the Act, no director or officer shall be liable for the acts, receipts, neglects or defaults of any other person, or for joining in any receipt or act for conformity; or for any loss, damage or expense incurred by the Corporation through the insufficiency or deficiency of title to any property acquired by, for or on behalf of the Corporation; or for the insufficiency or deficiency of any security in or upon which any moneys of the Corporation are invested; or for any loss or damage arising from the bankruptcy, insolvency or tortious act of any person with whom any moneys, securities or other property of the Corporation are lodged or deposited; or for any other loss, damage, or misfortune whatever which may arise out of the execution of the duties of his office or in relation thereto unless the same are occasioned by his own willful neglect or default.
- 7.04 **Amplification of Rights.** The foregoing provisions of this Article shall be in amplification of and in addition to, and not by way of limitation of or substitution for, any rights, immunities or protection conferred upon any director or officer by any statute, law, matter or thing whatsoever.
- 7.05 **Liability Insurance.** Subject to the Act, the Corporation may, with the approval of the board, from time to time purchase and maintain insurance for the benefit of any person referred to in Section 7.02 against any liability incurred by him.
- 7.06 **Indemnities to Directors and Others.** The board may from time to time by resolution cause the Corporation to give indemnities to any director or other person who has undertaken or is about to undertake any liability on behalf of the Corporation or any affiliated corporation and to secure such director or other person against loss by mortgage and charge upon the whole or any part of the real and personal property of the Corporation by way of security, and any action from time to time taken by the board under this Section shall not require approval or confirmation by the shareholders.

## ARTICLE EIGHT

### SHARES

- 8.01 **Allotment.** The board may from time to time allot or grant options to purchase the whole or any part of the authorized and unissued shares of the Corporation at such times and to such persons and for such consideration as the board shall determine, provided that no share shall be issued until it is fully paid as provided by the Act.
- 8.02 **Transfer Agents and Registrars.** The board may from time to time appoint or authorize the appointment of one or more agents to maintain, in respect of each class of securities of the Corporation issued by it in registered form, a central securities register and one or more branch securities registers. Such a person may be designated as transfer agent or registrar according to his functions and one person may be designated both registrar and transfer agent. The board may at any time terminate such appointment.
- 8.03 **Non-recognition of Trusts.** Subject to the Act, the Corporation shall be entitled to treat the registered holder of any shares as the absolute owner thereof and accordingly shall not, except as ordered by a court of competent jurisdiction or as required by applicable legislation, be bound to see to the execution of any trust, whether express, implied or constructive, in respect of any share or to recognize any other claim to or interest in such share on the part of any person other than the registered holder thereof.
- 8.04 **Share Certificates.** Share certificates shall be in such form as the board shall from time to time approve. Any share certificate need not be under the corporate seal. Unless the board otherwise determines, certificates representing shares in respect of

which a transfer agent or registrar has been appointed shall not be valid unless countersigned by or on behalf of the transfer agent or registrar. The signature of one of the signing officers, or, in the case of share certificates which are not valid unless countersigned by or on behalf of a registrar, transfer agent or branch transfer agent, the signatures of both signing officers, may be printed or mechanically reproduced in facsimile upon share certificates and every such facsimile signature shall for all purposes be deemed to be the signature of the officer whose signature it reproduces and shall be binding upon the Corporation. A share certificate executed as aforesaid shall be valid notwithstanding that one or both of the officers whose facsimile signature appears thereon no longer holds office, or the office specified in the certificate, at the date of issue of the certificate.

- 8.05 **Replacement of Share Certificates.** The board or any officer or agent designated by the board may, in its or his discretion, direct the issue of a new share certificate in lieu of and upon cancellation of a share certificate that has been mutilated or in substitution for a share certificate claimed to have been lost, destroyed or wrongfully taken on payment of such fee and on such terms as to indemnity, reimbursement of expenses (including legal fees incurred by the Corporation) and evidence of loss and of title as the board may from time to time prescribe, whether generally or in any particular case.
- 8.06 **Joint Shareholders.** If two or more persons are registered as joint holders of any share, the Corporation shall not be bound to issue more than one certificate in respect thereof, and delivery of such certificate to one of such persons shall be sufficient delivery to all of them. Any one of such persons may give effectual receipts for the certificate issued in respect thereof or for any dividend, bonus, return of capital or other money payable or warrant issuable in respect of such share.

## ARTICLE NINE

### DIVIDENDS AND RIGHTS

- 9.01 **Declaration.** The board may from time to time declare dividends to the shareholders according to their respective rights and interests in the Corporation. Dividends may be paid in money or property or by issuing fully paid shares of the Corporation and no dividend shall bear interest against the Corporation. The board shall determine the value of any dividend not paid in money.
- 9.02 **Dividend Cheques.** Subject to the rights, privileges, restrictions and conditions attached to any shares in the capital of the Corporation, a dividend payable in money shall, be paid by cheque drawn on the Corporation's bankers or one of them to the order of each registered holder of shares of the class or series in respect of which it has been declared and mailed by prepaid ordinary mail to the registered holder at his recorded address, unless such holder otherwise directs. In the case of joint holders, the cheque shall, unless the joint holders otherwise direct, be made payable to the order of all joint holders and mailed to them at their recorded address. The mailing of cheques as aforesaid, unless the same is not paid on due presentation, shall satisfy and discharge the liability for the dividend to the extent of the sum represented thereby plus the amount of any tax which the Corporation is required to and does withhold.
- 9.03 **Non-Receipt of Cheques.** Subject to the rights, privileges, restrictions and conditions attached to any shares in the capital of the Corporation, in the event of non-receipt of any dividend cheque by the person to whom it is sent as aforesaid, the Corporation shall issue to such person a replacement cheque for a like amount on such terms as to indemnity, reimbursement of expenses and evidence of non-receipt and of title as the board may from time to time prescribe, whether generally or in any particular case.
- 9.04 **Unclaimed Dividends.** Any dividend, whether declared before or after the enactment of this by-law, unclaimed after a period of six years from the date on which the same has been declared to be payable shall be forfeited and shall revert to the Corporation.

## ARTICLE TEN

### MEETINGS OF SHAREHOLDERS

- 10.01 **Annual Meetings.** The annual meeting of shareholders shall be held at such time in each year and, subject to Section 10.03, at such place as the board may from time to time determine, for the purpose of considering the financial statements and reports required by the Act to be placed before the annual meeting, electing directors and appointing an auditor and for the transaction of such other business as may properly be brought before the meeting.
- 10.02 **Special Meetings.** The board may at any time call a special meeting of shareholders.
- 10.03 **Place of Meetings.** Meetings of shareholders shall be held at such place within Canada as the board may from time to time determine.
- 10.04 **Notice of Meetings.** Notice of the time and place of each meeting of shareholders shall be given not less than 21 nor more than 50 days before the date of the meeting to each director, to the auditor and to each shareholder who at the close of business on the record date for notice is entered in the securities register as the holder of one or more shares carrying the right to vote at the meeting. Notice of a meeting of shareholders called for any purpose other than consideration of the financial statements and auditor's report, election of directors and reappointment of the incumbent auditor shall state the nature of the business to be transacted in sufficient detail to permit the shareholder to form a reasoned judgment thereon, and shall state the text of any special resolution to be submitted to the meeting. A shareholder and any other person entitled to attend a meeting of shareholders may in any manner waive notice of or otherwise consent to a meeting of shareholders.
- 10.05 **Chairman, Secretary and Scrutineers.** The chairman of the board, if any, or in his absence, the vice-chairman, if any, or in his absence, the president shall preside as chairman at every meeting of the shareholders, or if none of the chairman of the board, the vice-chairman, or the president is present within 15 minutes of the time appointed for holding the meeting or is willing to act as chairman, or if the chairman of the board, the vice-chairman, and the president have advised the secretary that they will not be present at the meeting, the shareholders present shall choose one of their number to be chairman of the meeting, if the secretary of the Corporation is absent, the chairman shall appoint some person who need not be a shareholder, to act as secretary of the meeting, if desired, one or more scrutineers, who need not be shareholders, may be appointed by a resolution or by the chairman with the consent of the meeting.
- 10.06 **Persons Entitled to be Present.** The only persons entitled to be present at a meeting of shareholders shall be those entitled to vote thereat, the directors, legal counsel and auditor of the Corporation and others who, although not entitled to vote, are entitled or required under any provision of the Act or the articles or by-laws to be present at the meeting. Any other persons may be admitted only on the invitation of the chairman of the meeting or with the consent of the meeting.
- 10.07 **Quorum.** A quorum for the transaction of business at any meeting of shareholders shall be two individuals present at the commencement of the meeting holding or representing by proxy shares carrying, in the aggregate, not less than twenty-five (25) percent of the votes eligible to be cast at the meeting.
- 10.08 **Authorized Representative.** Any body corporate or association that is a shareholder of the Corporation may, by a resolution of the directors or governing body of the body corporate or association (a certified copy of which shall be deposited with the secretary of the Corporation prior to the meeting at which it is to be used), appoint an individual to represent it at meetings of shareholders of the Corporation. Any such individual may exercise on behalf of the body corporate or association he represents all powers that it could exercise if it were an individual shareholder.
- 10.09 **Proxies.** Every shareholder entitled to vote at a meeting of shareholders may appoint a proxyholder, or one or more alternate proxyholders, who need not be shareholders, to attend and act at the meeting in the manner and to the extent authorized and with the authority conferred by the proxy. A proxy shall be in writing executed by the shareholder or his attorney authorized in writing. A proxy is valid only at the meeting in respect of which it is given or any adjournment thereof.

- 10.10 **Time for Deposit of Proxies.** The board may specify in a notice calling a meeting of shareholders a time, preceding the time of such meeting or an adjournment thereof by not more than 48 hours (excluding Saturdays and holidays), before which time proxies to be used at the meeting must be deposited. A proxy shall be acted upon only if, prior to the time so specified, it shall have been deposited with the Corporation or otherwise in accordance with the regulations made pursuant to Section 10, 11 or, in any case where no such regulations have been made, if it has been received by the secretary of the Corporation or by the chairman of the meeting or any adjournment thereof prior to the time of voting.
- 10.11 **Lodging of Proxies; Use of Facsimile.** The board may from time to time pass resolutions establishing regulations regarding the lodging of proxies at some place or places other than the place at which a meeting or adjourned meeting of shareholders is to be held and for particulars of proxies to be cabled or telegraphed or sent in writing before the meeting or adjourned meeting to the Corporation or any agent of the Corporation for the purpose of receiving such particulars and providing that proxies so lodged may be voted as though the proxies themselves were produced at the meeting or adjourned meeting, and votes given in accordance with such regulations shall be valid and shall be counted. The chairman of any meeting of shareholders may, subject to any regulations made as aforesaid, in his discretion accept telegraphic or cable or written communication as the authority of anyone claiming to vote on behalf of and to represent a shareholder notwithstanding that no proxy conferring such authority has been lodged with the Corporation, and any votes given in accordance with such telegraphic or cable or written communication accepted by the chairman shall be valid and shall be counted.
- 10.12 **Validity of Proxies.** A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding:
- (a) the previous death or insanity of the shareholder giving the proxy, or
  - (b) the revocation of the proxy or of the authority under which the proxy was executed, or
  - (c) the transfer of the share in respect of which the proxy is given,
- provided that no intimation in writing of the death, insanity, revocation or transfer as aforesaid has been received at the office of the Corporation or by the chairman of the meeting before the commencement of the meeting, or the adjourned meeting, at which the proxy was used.
- 10.13 **Joint Shareholders.** If two or more persons hold shares jointly, any one of them present in person or represented by proxy at a meeting of shareholders may, in the absence of the other or others, vote the shares; but if two or more of those persons are present in person or represented by proxy and vote, the vote of the joint holder whose name appears first on the shareholders list of the Corporation shall be accepted to the exclusion of the votes of the other joint shareholders.
- 10.14 **Votes to Govern.** At any meeting of shareholders every question shall, unless otherwise required by the articles or by laws be determined by a majority of the votes cast on the question. In case of an equality of votes either upon a show of hands or upon a poll, the chairman of the meeting shall be entitled to a second or casting vote, whether or not he is a shareholder.
- 10.15 **Show of Hands.** Subject to the provisions of the articles, any question at a meeting of shareholders shall be decided by a show of hands unless a ballot thereon is directed, required or demanded as hereinafter provided. Whenever a vote by show of hands shall have been taken upon a question, unless a ballot thereon is so directed, required or demanded, a declaration by the chairman of the meeting that the vote upon the question has been carried or carried by a particular majority or not carried and an entry to that effect in the minutes of the meeting shall be prima facie evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against any resolution or other proceeding in respect of the question, and the result of the vote so taken shall be the decision of the shareholders upon the question.
- 10.16 **Ballots.** On any question proposed for consideration at a meeting of shareholders, and whether or not a show of hands has been taken thereon, any shareholder or proxyholder entitled to vote at the meeting may require or demand a ballot. A ballot so required or demanded shall be taken in such manner as the chairman shall direct. A requirement or demand for a ballot may be withdrawn at any time prior to the taking of the ballot. If a ballot is taken each person present shall be entitled, in respect of the shares which he is entitled to vote at the meeting on the question, to that number of votes provided by the Act or the articles,

and the result of the ballot so taken shall be the decision of the shareholders upon the question. A poll demanded on the election of a chairman, or on a question of adjournment, shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs.

- 10.17 **Dispute of a Vote.** In the case of any dispute as to the admission or rejection of a vote, the chairman shall determine the same.
- 10.18 **Polls.** The demand for a poll shall not prevent the continuance of a meeting for the transaction of any business other than the question on which a poll has been demanded.
- 10.19 **Adjournment.** The chairman may, with the consent of any meeting, adjourn the meeting from time to time. If a meeting of shareholders is adjourned for less than 30 days, it shall not be necessary to give notice of the adjourned meeting other than by announcement at the meeting that is adjourned. If a meeting of shareholders is adjourned by one of more adjournments for an aggregate of 30 days or more, notice of the adjourned meeting shall be given as for an original meeting.

## ELEVEN NOTICES

- 11.01 **Method of Giving Notices.** Any notice or other communication to be given to any person under any provision of the articles or the by-laws of the Corporation or of any statute shall be sufficiently given, subject to any special requirement in that regard contained in the provision, if reduced to writing and either delivered or mailed by prepaid mail or sent by any means of any form of prepaid, transmitted or recorded communication to such person at the following applicable address:
- (a) if a shareholder or director, to the address of the shareholder or director appearing in the books of the Corporation or, if not so appearing, to the last address known to the person charged with the mailing; and for such purpose the address of any shareholder or director on the Corporation's books may be changed in accordance with any information which appears to be reliable, and any notice with respect to shares registered in the names of more than one person shall be given to whichever of the persons is named first in the share register and notice so given shall be sufficient notice to all the holders thereof;
  - (b) if to the Corporation, to its registered office; or
  - (c) if to the auditor, to the office of the auditor in the City of Vancouver, or to such other address as the auditor shall have designated by notice to the Corporation.
- 11.02 **Signature to Notice.** The signature to any notice to be given by the Corporation may be written, stamped, typewritten or printed, or partly written, stamped, typewritten or printed.
- 11.03 **Time of Delivery.** Any notice or other communication delivered shall be deemed to have been given at the time of delivery, any notice or other communication sent by any means of recorded communication shall be deemed to have been given on the day when it is transmitted by the Corporation or, if transmitted by others, on the day when it is dispatched or delivered to the appropriate communication company or agency or its representative for dispatch, and a certificate or declaration in respect of any thereof in writing signed by any officer or by an employee of a transfer agent or registrar of the Corporation shall be conclusive evidence of the matters therein certified or declared.
- 11.04 **Omissions and Errors.** The accidental omission to give any notice to any shareholder, director, officer, auditor or member of a committee of the board or the non-receipt of any notice by any such person or any error in any notice not affecting the substance thereof shall not invalidate any action taken at any meeting held pursuant to the notice or otherwise founded thereon.
- 11.05 **Persons Entitled by Death or Operation of Law.** Every person who, by operation of law, transfer, death of a shareholder or any other means whatsoever, shall become entitled to any share, shall be bound by every notice in respect of the share which shall have been duly given to the shareholder from whom he derives his title to the share prior to his name and address being entered on the securities register (whether the notice was given before or after the happening of the event upon which he became so entitled) and prior to his furnishing to the Corporation the proof of authority or evidence of his entitlement prescribed by the Act.

- 11.06 **Waiver of Notice.** Any shareholder (or his duly appointed proxyholder), director, officer, auditor or member of a committee of the board may at any time waive any notice, or waive or abridge the time for any notice, required to be given to him under any provision of the Act, the regulations thereunder, the articles, the by-laws or otherwise and the waiver or abridgement, whether given before or after the meeting or other event of which notice is required to be given, shall cure any default in the giving or in the time of the notice as the case may be. Any waiver or abridgement shall be in writing except a waiver of notice of a meeting of shareholders or of the board or of a committee of the board which may be given in any manner.

## SCHEDULE B

### NATIONAL INSTRUMENT 58-101

#### DISCLOSURE OF CORPORATE GOVERNANCE PRACTICES

	PRACTICE	FINNING
<b>1. Board of Directors</b>		
(a)	Disclose the identity of directors who are independent.	All directors of the Corporation are independent, other than Douglas W.G. Whitehead.
(b)	Disclose the identity of directors who are not independent, and describe the basis for that determination.	Douglas W.G. Whitehead is the President and Chief Executive Officer of the Corporation and is the only director who is not independent of management.
(c)	Disclose whether or not a majority of directors are independent. If a majority of directors are not independent, describe what the board of directors (the board) does to facilitate its exercise of independent judgment in carrying out its responsibilities.	9 of the 10 current directors are independent.
(d)	If a director is presently a director of any other issuer that is a reporting issuer (or the equivalent) in a jurisdiction or a foreign jurisdiction, identify both the director and the other issuer.	The directorships in other reporting issuers held by the nominees for director are listed in the description of each nominee under the heading "Proposed Management Nominees for Election as Directors".
(e)	Disclose whether or not the independent directors hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance. If the independent directors hold such meetings, disclose the number of meetings held since the beginning of the issuer's most recently completed financial year. If the independent directors do not hold such meetings, describe what the board does to facilitate open and candid discussion among its independent directors.	At each regularly scheduled board meeting, the board meets outside of the presence of members of management, other than Douglas W.G. Whitehead who is a member of the board. In addition, where matters directly involving Douglas W.G. Whitehead (such as compensation issues) are being discussed, Douglas W.G. Whitehead is excused from the discussion and the independent directors meet alone. Since January 1, 2005, independent members have met outside of the presence of Douglas W.G. Whitehead and other members of management once.
(f)	Disclose whether or not the chair of the board is an independent director. If the board has a chair or lead director who is an independent director, disclose the identity of the independent chair or lead director, and describe his or her role and responsibilities. If the board has neither a chair that is independent nor a lead director that is independent, describe what the board does to provide leadership for its independent directors.	The Chairman of the Board (Conrad A. Pinette) is independent. The Chairman's role and responsibilities are described in the "Terms of Reference for the Chair", which are posted on Finning's website.
(g)	Disclose the attendance record of each director for all board meetings held since the beginning of the issuer's most recently completed financial year.	The attendance record of each of the directors is shown in a table on page 23.
<b>2. Board Mandate</b>		
	Disclose the text of the board's written mandate. If the board does not have a written mandate, describe how the board delineates its role and responsibilities.	The Board's written Terms of Reference is contained in Schedule C.

## PRACTICE

## FINNING

### 3. Position Descriptions

(a) Disclose whether or not the board has developed written position descriptions for the chair and the chair of each board committee. If the board has not developed written position descriptions for the chair and/or the chair of each board committee, briefly describe how the board delineates the role and responsibilities of each such position.	The Board has developed written position descriptions for the Chairman of the Board and the Chair for each of the Committees.
(b) Disclose whether or not the board and CEO have developed a written position description for the CEO. If the board and CEO have not developed such a position description, briefly describe how the board delineates the role and responsibilities of the CEO.	The Board and CEO have developed a written position description for the CEO, which is reviewed annually. In addition, the Human Resources Committee annually reviews a set of goals and objectives for the CEO and his performance against the goals and objectives for the previous year.

### 4. Orientation and Continuing Education

(a) Briefly describe what measures the board takes to orient new directors regarding: (i) the role of the board, its committees and its directors; and (ii) the nature and operation of the issuer's business.	A full description of these measures is contained under the heading "Orientation and Continuing Education" on page 19.
(b) Briefly describe what measures, if any, the board takes to provide continuing education for its directors. If the board does not provide continuing education, describe how the board ensures that its directors maintain the skill and knowledge necessary to meet their obligations as directors.	A full description of these measures is contained under the heading "Orientation and Continuing Education" on page 19.

### 5. Ethical Business Conduct

(a) Disclose whether or not the board has adopted a written code for the directors, officers and employees. If the board has adopted a written code: (i) disclose how a person or company may obtain a copy of the code; (ii) describe how the board monitors compliance with its code, or if the board does not monitor compliance, explain whether and how the board satisfies itself regarding compliance with its code; and (iii) provide a cross-reference to any material change report filed since the beginning of the issuer's most recently completed financial year that pertains to any conduct of a director or executive officer that constitutes a departure from the code.	The Board has adopted a written code of conduct for directors, officers and employees of the Corporation.  The code is available to its directors and employees in a policy manual, on the Corporation's web site and on SEDAR.  Management reports violations of the code and any actions it has taken to the Board of Directors.  There were no violations of the code in 2005 with respect to any directors or executive officers.
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## PRACTICE

## FINNING

(b) Describe any steps the board takes to ensure directors exercise independent judgment in considering transactions and agreements in respect of which a director or executive officer has a material interest.	If there is a conflict of interest or the perception of a conflict of interest, executive officers or directors do not participate in the negotiations or approvals pertaining to such a matter.
(c) Describe any other steps the board takes to encourage and promote a culture of ethical business conduct.	The Board has established the Environmental, Health and Safety Committee to monitor the Corporation policy of continuous improvement in standards and expectations for protecting the health and safety of the employees and the environment in which they work.
<b>6. Nomination of Directors</b>	
(a) Describe the process by which the board identifies new candidates for board nomination.	The Corporate Governance Committee is responsible for identifying, recruiting and recommending new candidates for Board nomination. At least annually, the Committee reviews the board's current composition by comparing the various skills and competencies of board members against those it considers appropriate.
(b) Disclose whether or not the board has a nominating committee composed entirely of independent directors. If the board does not have a nominating committee composed entirely of independent directors, describe what steps the board takes to encourage an objective nomination process.	The Corporate Governance Committee is composed entirely of independent directors.
(c) If the board has a nominating committee, describe the responsibilities, powers and operation of the nominating committee.	The Corporate Governance Committee mandate is described on page 20.
<b>7. Compensation</b>	
(a) Describe the process by which the board determines the compensation for the issuer's directors and officers.	The Corporate Governance Committee and the Human Resources Committee are responsible for recommending the compensation of the Corporation's directors and officers, respectively. The Committee uses comparative information to ensure that the compensation is competitive considering the scope of the responsibilities. The process followed by the Committee is described in their report beginning on page 10.
(b) Disclose whether or not the board has a compensation committee composed entirely of independent directors. If the board does not have a compensation committee composed entirely of independent directors, describe what steps the board takes to ensure an objective process for determining such compensation.	The Human Resources Committee is composed entirely of independent directors.
(c) If the board has a compensation committee, describe the responsibilities, powers and operation of the compensation committee.	The Human Resources Committee's mandate is described in their report beginning on pages 10 and 22.

## PRACTICE

## FINNING

- (d) If a compensation consultant or advisor has, at any time since the beginning of the issuer's most recently completed financial year, been retained to assist in determining compensation for any of the issuer's directors and officers, disclose the identity of the consultant or advisor and briefly summarize the mandate for which they have been retained. If the consultant or advisor has been retained to perform any other work for the issuer, state that fact and briefly describe the nature of the work.

In arriving at its recommendations, the Human Resources Committee of the Board has access to formal management performance assessments. Further, the Committee receives advice from management's independent consultant, Hay Group, who provides comparative market data. On an annual basis, Hay Group provides peer group data on salary, short-term incentive and long-term incentive compensation. Furthermore, the Committee retains Hewitt Associates as its independent consultant for advice on executive compensation practices, compensation design, and for updates on legal and regulatory issues. The Corporate Governance Committee retains Mercer Human Resources Consultants for review and advice on the compensation levels of the independent Directors of the Board.

### 8. Other Board Committees

If the board has standing committees other than the audit, compensation and nominating committees, identify the committees and describe their function.

The Corporation has a Corporate Governance Committee and an Environmental, Health and Safety Committee. The mandates of these committees are described on pages 20 and 22.

### 9. Assessments

Disclose whether or not the board, its committees and individual directors are regularly assessed with respect to their effectiveness and contribution. If assessments are regularly conducted, describe the process used for the assessments. If assessments are not regularly conducted, describe how the board satisfies itself that the board, its committees, and its individual directors are performing effectively.

The Corporate Governance Committee has the responsibility for conducting an annual performance evaluation of the board, each of its committees, the Chairman and each individual director. The process involves, among other things, asking each director to complete detailed evaluation questionnaires. Ultimately, the Committee makes recommendations to the full board regarding any changes and improvements it determines to be necessary.

## **SCHEDULE C**

### **FINNING INTERNATIONAL INC.**

#### **TERMS OF REFERENCE FOR THE BOARD OF DIRECTORS**

##### **I. INTRODUCTION**

- A. The primary responsibility of the Board is to foster the long-term success of the Corporation consistent with its fiduciary responsibility to the shareholders to maximize shareholder value and provide strategic oversight.
- B. The Board operates by delegating certain of its authorities, including spending authorizations, to management and by reserving certain powers to itself. Subject to the Articles and By-Laws of the Corporation, the Board retains the responsibility for managing its own affairs, including planning its composition, selecting its Chair, nominating candidates for election to the Board, appointing committees and determining director compensation.
- C. These terms of reference are prepared to assist the Board and management in clarifying responsibilities and ensuring effective communication between the Board and management.

##### **II. COMPOSITION AND BOARD ORGANIZATION**

- A. Nominees for director are initially considered and recommended by the Corporate Governance Committee of the Board, approved by the entire Board and elected annually by the shareholders of the Corporation.
- B. A majority of directors comprising the Board must qualify as independent directors.
- C. Certain of the responsibilities of the Board referred to herein may be delegated to committees of the Board. The responsibilities of those committees will be as set forth in their terms of reference, as amended from time to time.

##### **III. DUTIES AND RESPONSIBILITIES**

###### **A. Managing the Affairs of the Board**

The Board operates by delegating certain of its authorities, including spending authorizations, to management and by reserving certain powers to itself. The legal obligations of the Board are described in detail in Section IV. Subject to these legal obligations and to the Articles and By-laws of the Corporation, the Board retains the responsibility for managing its own affairs, including:

- i) planning its composition and size;
- ii) selecting and setting the terms of reference for the Board Chair;
- iii) nominating candidates for election to the Board;
- iv) appointing committees;
- v) determining director compensation; and
- vi) assessing the effectiveness of the Board, committees and directors in fulfilling their responsibilities.

###### **B. Management and Human Resources**

The Board has the responsibility:

- i) for the appointment and replacement of a Chief Executive Officer ("CEO"), for monitoring CEO performance, for approving CEO compensation and providing advice and counsel to the CEO in the execution of the CEO's duties;
- ii) for approving terms of reference for the CEO;
- iii) in consultation with the CEO, for approving annual objectives that the CEO is responsible for meeting;
- iv) to the extent feasible, for satisfying itself as to the integrity of the CEO and other senior officers, and that the CEO and other senior officers create a culture of integrity throughout the organization;
- v) for acting upon the advice of the CEO, and the recommendation of the Human Resources Committee, for approving the appointment and remuneration of all corporate officers; and
- vi) for ensuring that plans have been made for management succession including appointing, training and monitoring senior management.

### **C. Monitoring and Acting**

The Board has the responsibility:

- i) for monitoring the Corporation's progress towards its strategic goals, and for revising and altering corporate direction through management in light of changing circumstances;
- ii) for approving any payment of dividends and new financings;
- iii) to ensure management identifies the principal risks of the Corporation's business (including country investment and political risks) and takes all reasonable steps to ensure the implementation of appropriate systems to manage these risks; and
- iv) for directing management to ensure systems are in place for the implementation and integrity of the Corporation's internal control and information technology systems.

### **D. Strategy Determination**

The Board has the responsibility:

- i) for adopting a strategic planning process;
- ii) for approving, at least annually, a strategic plan that takes into account, among other things, the opportunities and risks of the business; and
- iii) for reviewing with management the mission of the business, its objectives and goals, and the strategy by which it proposes to reach those goals.

### **E. Policies and Procedures**

The Board has the responsibility:

- i) for approving and monitoring compliance with all significant policies and procedures by which the Corporation is operated;
- ii) for adopting a written Code of Business Conduct and Ethics (Tab C-I) and a Code of Ethics for Senior Management and Financial Officers (Tab C-II);
- iii) for approving and properly disclosing any waivers to the Code of Business Conduct and Ethics and the Code of Ethics for Senior Management and Financial Officers; and
- iv) for ensuring systems are in place which are designed to ensure that the Corporation operates at all times within applicable laws and regulations, and to the highest ethical and moral standards.

### **F. Financial and Corporate Issues**

The Board has the responsibility:

- i) with consideration to the recommendation of the Audit Committee, for nominating an External Auditor for approval by shareholders; and if the Board does not adopt the Audit Committee's recommendation for External Auditor, ensure this fact is disclosed in the Annual Information Form;
- ii) with consideration to the recommendation of the Audit Committee, for approving the compensation of the External Auditor; and if the Board does not adopt the Audit Committee's recommendation, ensure this fact is disclosed in the Annual Information Form;
- iii) for taking reasonable steps to ensure the implementation and integrity of the Corporation's internal control and management information systems;
- iv) for reviewing operating and financial performance relative to budgets or objectives;
- v) for approving annual and quarterly financial statements and approve release thereof by management;
- vi) for approving the Management Proxy Circular, Annual Information Form and documents incorporated by reference therein; and
- vii) for approving the commencement or settlement of litigation that may have a material impact on the Corporation.

#### **G. Reporting to Stakeholders**

- i) The Board has the responsibility to adopt a communications policy for the Corporation.
- ii) The Board has the responsibility to direct management:
  - a) to ensure that the Corporation maintains effective, productive and appropriate reporting and communications links with Caterpillar;
  - b) to ensure that the financial performance of the Corporation is adequately reported to shareholders, other security holders and regulators on a timely and regular basis;
  - c) to ensure that the financial results are reported fairly and in accordance with generally accepted accounting principles;
  - d) to ensure the timely reporting of any other developments that have a significant and material impact on the value of the Corporation;
  - e) to report annually to shareholders on its stewardship for the preceding year (the Annual Report); and
  - f) to ensure that the Corporation has systems in place which accommodate feedback from stakeholders.

#### **IV. LEGAL REQUIREMENTS**

- A. The Board is responsible for taking all reasonable steps to ensure that legal requirements have been met, and documents and records have been properly prepared, approved and maintained.
- B. Canadian law, the jurisdiction of incorporation of the Corporation, identifies the following as legal requirements for the Board:
  - i) to manage, or supervise the management of, the business and affairs of the Corporation;
  - ii) to act honestly and in good faith with a view to the best interests of the Corporation;
  - iii) to exercise the care, diligence and skill that reasonable prudent people would exercise in comparable circumstances;
  - iv) to act in accordance with its obligations contained in the Canada Business Corporations Act, the Securities Act of each province and territory of Canada, other relevant legislation and regulations, and the Corporation's articles and By-Laws; and
  - v) in particular, it should be noted that the following matters must be considered by the Board as a whole and may not be delegated to a Committee:
    - a) any submission to the shareholders of a question or matter requiring the approval of the shareholders;
    - b) the filling of a vacancy among the directors or in the office of the External Auditor;
    - c) the manner and the term for the issuance of securities;
    - d) the declaration of dividends;
    - e) the purchase, redemption or any other form of acquisition of shares issued by the Corporation;
    - f) the payment of a commission to any person in consideration of the purchase or agreement to purchase shares of the Corporation from the Corporation or from any other person, or procuring or agreeing to procure purchasers for any such shares;
    - g) the approval of Management Proxy Circulars;
    - h) the approval of any Take-over Bid Circular or Directors' Circular;
    - i) the approval of the financial statements of the Corporation; and
    - j) the adoption, amendment or repeal of By-Laws of the Corporation.

## NOTES

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